

EXPORT-IMPORT BANK AMENDMENTS OF 1983

HEARINGS
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE
AND MONETARY POLICY
OF THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN
AFFAIRS
UNITED STATES SENATE
NINETY-EIGHTH CONGRESS
FIRST SESSION
ON
S. 869
TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945

MARCH 22 AND 24, 1983

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



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EXPORT-IMPORT BANK AMENDMENTS OF 1983

TUESDAY, MARCH 22, 1983

U.S. SENATE, COMMITTEE ON BANKING, HOUSING AND
URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL FI-
NANCE AND MONETARY POLICY,

Washington, D.C.

The subcommittee met at 9:40 a.m. in room SD-538 of the Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Mattingly, Proxmire, and Lautenberg.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. The International Finance Subcommittee will come to order.

Today's hearing is the first of two to consider reauthorization of the Export-Import Bank. Today's witnesses, in addition to Senator Exon, will be from the administration. On Thursday, the subcommittee will hear private sector witnesses.

I want to begin these hearings on a note of optimism, something we haven't always been able to do where the Export-Import Bank has been concerned. As many in this room know, I have spent 6 years fighting for a more aggressive and competitive Export-Import Bank. I must say that particularly in the last 2 years this has seemed like something of an uphill battle, as the Reagan administration, I am afraid, on a few occasions—maybe numerous occasions—demonstrated to myself and a number of people on this committee that its understanding and appreciation of the role of the Export-Import Bank left a good deal to be desired.

Finally, after prolonged discussion and a fair amount of lobbying by me, other members of the committee, the Members of Congress, and by a lot of private sector exporters, there is some very welcome evidence of progress. The President, in his state of the Union message, where he devoted more time to trade than any President in history, I am very pleased and proud to note, endorsed both a more aggressive Bank and the war chest concept that I have been working and fighting for for a number of years as a means of combating the kinds of very unfair subsidy practices that other countries engage in.

The President proposed the war chest as a contingency, and the bill which I introduced yesterday, together with Senator Garn and other members of the committee, would implement that recommendation by authorizing the necessary funds.

But leaving the Appropriations Committee the task of setting actual limits on the funds that can be obligated, others in the pri-

vate sector have also indicated a new attitude on the part of the Bank, a new willingness to help exporters and a new recognition of the Bank's crucial role in assuring and assisting U.S. exports.

I hope this means that we are entering a new, more constructive period for the Bank, but as I said yesterday when I introduced my Reauthorization Bill, I won't fully believe it until I actually see a more aggressive and competitive Bank operating.

Let me say one or two additional words about the bill I introduced yesterday. I think it will help make the Bank more aggressive and more competitive. It further codifies and clarifies the Bank's mandate to remain competitive. It provides staggered terms for Board members, it provides a strengthened section 1912 to match foreign subsidized offers in this country and a program of mixed credits. It authorizes \$7 billion for fiscal 1984, \$7.5 billion for fiscal 1985, leaving room for both the President's request and the supplementary war chest he outlined in January.

I hope our witnesses today and Thursday will comment on these proposals. I note that Mr. Draper will do so in his testimony. Although I can't say that I am pleased with what he says, nonetheless, I hope that these hearings will mark the beginning of a more constructive relationship between this committee and the Bank.

Let me make clear, however, that I have not altered my determination that the Bank be more aggressive and competitive. To the extent that the Administration has changed its mind and, frankly, I think it has, we can work together much more constructively and productively.

I am very pleased to see that our ranking minority member on this subcommittee, Senator Proxmire, who takes a great interest in this matter, is here. Bill, do you have an opening statement?

BRIEF STATEMENT OF SENATOR PROXMIRE

Senator PROXMIRE. John, I will be very brief. I don't have any formal opening statement, except to congratulate Mr. Draper on the fine job he is doing. I think he is doing exactly the right thing. I am pleased with what you are saying, Mr. Draper. I think it is exactly right. I can't think of anything more contradictory than for us to subsidize an operation that will benefit foreign consumers at the cost of our taxpayers. What you are doing, as I understand it, is fighting as hard as you can for international market competition, based not on a subsidized rate of interest, but based on effective competition at the market rate of interest, which is exactly the right thing to do. And I encourage you to continue with that.

The only area where I think that the Export-Import Bank perhaps should concentrate more is on encouraging small business. I realize you are trying to do that, and I realize it is extremely difficult, but I think this does offer some opportunities for small business, which I think our small businessmen, who are extraordinarily efficient, can fulfill very well, if they can get over the notion that selling abroad is not just a big business operation.

Thank you, Mr. Chairman.

Senator HEINZ. Well, our first witness this morning is Bill Draper, Chairman of the Export-Import Bank. Bill, would you please proceed? Then we will turn to the other members. But let us insert a copy of the bill being considered into the record at this point first.

[Copy of S. 869 follows:]

98TH CONGRESS
1ST SESSION

S. 869

To amend the Export-Import Bank Act of 1945.

IN THE SENATE OF THE UNITED STATES

MARCH 21, 1983

Mr. HEINZ (for himself, Mr. GARN, Mr. JACKSON, and Mrs. KASSEBAUM) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend the Export-Import Bank Act of 1945.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Export-Import Bank
4 Amendments of 1983".

5 TITLE I—AMENDMENTS TO THE EXPORT-IMPORT

6 BANK ACT OF 1945

7 COMPETITIVE MANDATE

8 SEC. 101. (a) The second sentence of section 2(b)(1)(A)
9 of the Export-Import Bank Act of 1945 is amended—
10 (1) by inserting "in all its programs" after "objec-
11 tive"; and

1 (2) by inserting "fully" after "which are".

2 (b) Section 2(b)(1)(B) of such Act is amended by striking
3 out all through "exports of other countries;" in the first sen-
4 tence and inserting in lieu thereof the following: "It is further
5 the policy of the United States that loans made by the Bank
6 in all its programs shall bear interest at rates determined by
7 the Board of Directors of the Bank, consistent with the
8 Bank's mandate to support United States exports at rates
9 and on terms and conditions which are fully competitive with
10 exports of other countries. The Bank shall consider the aver-
11 age cost of money as one factor in its determination of inter-
12 est rates, where such consideration does not impair the
13 Bank's primary function of expanding United States exports
14 through fully competitive financing. It is also the policy of
15 the Bank".

16 ADVISORY COMMITTEE

17 SEC. 102. Section 3(d) of the Export-Import Bank Act
18 of 1945 is amended to read as follows:

19 "(d) There is established an Advisory Committee to con-
20 sist of twelve members who shall be appointed by the Board
21 of Directors on the recommendation of the President of the
22 Bank, and who shall be broadly representative of production,
23 commerce, finance, agriculture, labor, services, and State
24 government. The Advisory Committee shall meet at least
25 once each quarter. The Advisory Committee shall advise the

1 Bank on its programs, and shall submit, with the report re-
2 ferred to in section 2(b)(1)(A) of this Act, its own comments
3 to the Congress on the extent to which the Bank is meeting
4 its mandate to provide competitive financing to expand
5 United States exports, and any suggestions for improvements
6 in this regard. Members of the Advisory Committee, on a
7 rotating basis, shall be permitted to attend meetings of the
8 Board of Directors.”.

9

TERMS OF DIRECTORS

10 SEC. 103. (a) The third sentence of section 3(c) of the
11 Export-Import Bank Act of 1945 is amended by striking out
12 “Terms of the directors shall be at the pleasure of the Presi-
13 dent of the United States, and the” and inserting in lieu
14 thereof “The”.

15 (b) Section 3(c) of such Act is amended by adding at the
16 end thereof the following: “The terms of the directors first
17 appointed after the date of enactment of this sentence, includ-
18 ing the President and the First Vice President of the Bank,
19 shall be four years, except that—

20 “(1) of the directors first appointed pursuant to
21 this sentence, three directors (other than the President
22 and First Vice President of the Bank) shall be appoint-
23 ed for terms of two years, as designated by the Presi-
24 dent of the United States at the time of their appoint-
25 ment;

1 Bank referred to in this section shall be completed and
 2 made not later than sixty days after the receipt of such
 3 information.”;

4 (2) by striking out “determining” in paragraph
 5 (b)(1) and inserting in lieu thereof “significant”.

6 (3) by striking out “may” and inserting in lieu
 7 thereof “shall” in subsection (c).

8 REPORT TO CONGRESS

9 SEC. 10. The first sentence of section 2(b)(3) of the
 10 Export-Import Bank Act of 1945 is amended by striking out
 11 “\$100,000,000” and inserting in lieu thereof
 12 “\$250,000,000”.

13 TITLE II—MIXED CREDIT EXPORT SUBSIDIES

14 SHORT TITLE

15 SEC. 201. This title may be referred to as the “Trade
 16 and Development Enhancement Act of 1983”.

17 STATEMENT OF PURPOSE

18 SEC. 202. The purposes of this title are—

19 (1) to expand employment and economic growth
 20 in the United States by expanding United States ex-
 21 ports to the markets of the developing world;

22 (2) to stimulate the economic development of
 23 countries in the developing world by improving their
 24 access to credit for the importation of United States
 25 products and services for developmental purposes;

1 (3) to neutralize the predatory financing engaged
2 in by many nations whose exports compete with
3 United States exports, and thereby restore export com-
4 petition to a market basis; and

5 (4) to encourage foreign governments to enter into
6 effective and comprehensive agreements with the
7 United States to end the use of government-mixed
8 credits for exports, and to limit and govern the use of
9 export credit subsidies generally.

10 NEGOTIATING MANDATE

11 SEC. 203. The President shall pursue vigorously negoti-
12 ations to limit and set rules for the use of mixed financing for
13 exports. The negotiating objectives of the United States
14 should include reaching agreements—

15 (1) to define the various forms of mixed financing,
16 particularly mixed credits under the OECD arrange-
17 ment;

18 (2) to phase out the use of government-mixed
19 credits by a date certain;

20 (3) to set rules governing the use of public-private
21 cofinancing, or other forms of mixed financing, which
22 may have the same result as government-mixed credits
23 of drawing on concessional development assistance to
24 produce subsidized export financing;

1 (4) to raise the threshold for notification of the use
2 of mixed financing to a 50 per centum level of conces-
3 sionality;

4 (5) to improve notification procedures so that ad-
5 vance notification must be given on all uses of mixed
6 financing, including forms not restricted; and

7 (6) to prohibit the use of mixed financing for pro-
8 duction facilities for goods which are in structural over-
9 supply in the world.

10 ESTABLISHMENT OF A MIXED FINANCING PROGRAM IN
11 THE UNITED STATES EXPORT-IMPORT BANK

12 SEC. 204. (a) The Chairman of the Export-Import Bank
13 of the United States shall establish, within the Export-
14 Import Bank, a program of mixed financing for United States
15 exports. The program shall be carried out in cooperation with
16 the Agency for International Development and with private
17 financial institutions or entities, as appropriate. The program
18 may include—

19 (1) the combined use of the credits, loans, or
20 guarantees offered by the Export-Import Bank with
21 concessional financing or grants offered by the Agency
22 for International Development, by methods including,
23 but not limited to, the blending of the financing of, or
24 parallel financing by, the Export-Import Bank and the
25 Agency for International Development; and

1 (2) the combined use of credits, loans, or guaran-
2 tees offered by the Export-Import Bank, with financing
3 offered by private financial institutions or entities, by
4 methods including, but not limited to, the blending of
5 the financing of, or parallel financing by, the Export-
6 Import Bank and private institutions or entities.

7 (b) The purpose of the mixed financing program under
8 this section shall be to offer or arrange for financing for the
9 export of United States goods and services that is substan-
10 tially as concessional as financing for which there is reason-
11 able proof that a foreign government is offering to, or arrang-
12 ing for, a bona fide foreign competitor for a United States
13 export sale.

14 (c) United States exports eligible for concessional mixed
15 financing shall be exports offered at what can reasonably be
16 judged to be the lowest evaluated bid, without respect to the
17 terms of export financing.

18 (d) The Chairman of the Export-Import Bank is author-
19 ized to establish a fund, as necessary, for carrying out the
20 mixed financing program described in this section.

21 ESTABLISHMENT OF A MIXED FINANCING PROGRAM IN

22 THE AGENCY FOR INTERNATIONAL DEVELOPMENT

23 SEC. 205. (a) The Administrator of the Agency for In-
24 ternational Development shall establish within the Agency a
25 program of mixed financing for United States exports. The

1 program shall be carried out in cooperation with the Export-
2 Import Bank and with private financial institutions or enti-
3 ties, as appropriate. The program may include—

4 (1) the combined use of the credits, loans, or
5 guarantees offered by the Export-Import Bank with
6 concessional financing or grants offered by the Agency
7 for International Development, by methods including,
8 but not limited to, the blending of the financing of, or
9 parallel financing by, the Export-Import Bank and the
10 Agency for International Development; and

11 (2) the combination of concessional financing or
12 grants offered by the Agency for International Devel-
13 opment with financing offered by private financial insti-
14 tutions or entities, by methods including, but not
15 limited to, the blending of the financing of, or parallel
16 financing by, the Agency for International Develop-
17 ment and private institutions or entities.

18 (b) These funds may be combined with Export-Import
19 Bank financing or private commercial financing in order to
20 offer, or arrange for, financing for the exportation of United
21 States goods and services that is substantially as concessional
22 as financing for which there is reasonable proof that a foreign
23 government is offering to, or arranging for, a bona fide for-
24 eign competitor for a United States export sale.

1 (c) United States exports eligible for concessional mixed
2 financing shall be exports offered at what can reasonably be
3 judged to be the lowest evaluated bid, without respect to the
4 terms of export financing.

5 (d) Funds of the Agency for International Development
6 which are used to carry out a mixed financing program au-
7 thorized by subsections (a), (b), and (c) shall be offered for
8 financing only United States exports that can reasonably be
9 expected to contribute to the advancement of the develop-
10 ment objectives of the importing country or countries.

11 (e) The Administrator of the Agency for International
12 Development is authorized to draw on Economic Support
13 Funds, as necessary, and to establish a fund, as necessary,
14 for carrying out a mixed financing program as described in
15 this section.

16 APPOINTMENT OF A MIXED FINANCING COORDINATOR

17 SEC. 206. The President shall appoint an individual to
18 coordinate and ensure the implementation of the mixed fi-
19 nancing programs authorized by sections 204 and 205. The
20 individual appointed by the President for this purpose shall
21 develop procedures and mechanisms as necessary to assure
22 that any offer of mixed financing for eligible United States
23 exports is timely and permits the United States exporter to
24 respond to the timing demands of the competitive situation.

1 AUTHORIZATION OF APPROPRIATIONS

2 SEC. 207. There are authorized to be appropriated such
3 sums as may be necessary to carry out this title.

4 DEFINITIONS

5 SEC. 208. As used in this title—

6 (1) the term “mixed financing” means the various
7 combinations of official development assistance, official
8 export credit, and private commercial capital to finance
9 exports;

10 (2) the term “government-mixed credits” means
11 the combined use of credits, insurance, and guarantees
12 offered by the Export-Import Bank with concessional
13 financing or grants offered by the Agency for Interna-
14 tional Development to finance exports;

15 (3) the term “public-private cofinancing” means
16 the combined use of either official development assist-
17 ance or official export credit with private commercial
18 credit to finance exports;

19 (4) the term “blending of financings” means the
20 use of various combinations of official development as-
21 sistance, official export credit, and private commercial
22 credit, integrated into a single package with a single
23 set of financial terms, to finance exports; and

24 (5) the term “parallel financing” means the relat-
25 ed use of various combinations of separate lines of offi-

- 1 cial development assistance, official export credits, and
- 2 private commercial credit, not combined into a single
- 3 package with a single set of financial terms, to finance
- 4 exports.

STATEMENT OF WILLIAM H. DRAPER III, CHAIRMAN, EXPORT-IMPORT BANK, ACCOMPANIED BY RICHARD W. HELDRIGE, DIRECTOR, JAMES K. HESS, ACTING TREASURER-COMPTROLLER AND JAMES E. YONCE, DIRECTOR

Mr. DRAPER. Mr. Chairman, members of the subcommittee. The Export-Import Bank's charter lapses on September 30, 1983. It was last renewed in 1978, and in the 5 years that have elapsed since then, Eximbank has had to confront the challenges of a changing world. Over the next few years, we must use our resources in ways that will meet the needs of U.S. exporters, as they take advantage of the opportunities afforded by a global economy in recovery.

Let me assure you that we will provide financing to U.S. exporters on terms and conditions which will be competitive, with Government-supported financing available to exporters from other countries. Our interest rates have been reduced to the minimums allowed under the OECD International Arrangement. We are now making available most long-term and medium-term credits. With the exception of military items, all products or services of U.S.-origin or manufacture are eligible for loans, guarantees or insurance. We are staying open even in the troubled markets throughout the world, because we have an obligation to assist our exporters in difficult times.

GUARANTEED LOANS

Our program for providing guarantees of loans made in other convertible currencies is in full force and effect, and we are approving various combination of direct loans and financial guarantees, which enable us to provide full support for the entire financed portion of a transaction.

Over the past 2 years, as a result of the U.S. Government's vigorous leadership, we have largely succeeded in our efforts to do away completely with the subsidy element in the export credit financing. We were also able to negotiate a common line agreement on aircraft financing with the governments that comprise the Airbus consortium. The result of this agreement has been to eliminate financing as a competitive factor in aircraft sales.

Most recently we have been exploring within the OEC framework, the possibility of further raising minimum interest rates for aircraft, but allowing longer terms. We have also reached agreement with other OECD countries regarding financing for nonaircraft capital goods. The result of these agreements has been to increase the minimum lending rates charged by official export agencies to near market levels. By the middle of last summer, a reduction of approximately 50 percent in the subsidy content of officially supported export financing has taken place. Since then the decline in market rates has virtually eliminated the remaining subsidy.

Under the revised guidelines of the OECD's International Arrangement, minimum interest rates, which were 7.5 to 8.875 when I joined the Bank, are now 10 to 12.4 percent. On January 18 of this year, we reduced Eximbank's rates to the Arrangement minimums, removing the last differential between our competitors' rates and our rates.

For fiscal year 1984, we are requesting \$3,730 million for regular loans as well as to fund a new facility, the medium-term credit program, which will provide support for medium-term export sales that are facing subsidized officially supported export credit competition from abroad.

In addition, for 1984 fiscal year, the Bank is budgeting \$100 million to help small manufacturers under the discount loan program. The total \$3.8 billion figure requested for direct loan obligations is based upon a careful estimate of the needs of U.S. exporters in fiscal year 1984. If our resources are not fully utilized, the only reason will be that the economic recovery in the rest of the world may lag behind ours and keep down the demand for U.S. exports.

Conversely, we believe that our resources will be adequate even with the projected upsurge in demand for U.S. exports, because U.S. market rates of interest should be below the minimum Arrangement rates of interest charged by Eximbank and other official export credit agencies. We think that many U.S. exporters will be able to compete using commercial financing with our guarantee. However, if market rates do go back up, or if we are unsuccessful in negotiations with our major trading partners, the President has expressly stated in his budget message to Congress that he will request supplemental direct credit authority of up to an additional \$2.67 billion, if necessary to meet subsidized foreign officially supported competition.

EXIMBANK BUDGET REQUESTS

With respect to guarantees and insurance commitments, Eximbank's fiscal year 1984 budget requests a level of \$10 billion. This is \$1 billion above the limit approved by Congress for fiscal year 1983 and should give us adequate resources to provide risk protection under both our short and medium term programs, as well as financial guarantees for project loans at market rates from the private sector.

I mentioned earlier that buyers in many of our best markets are having problems in paying their debts, because countries like Mexico and Argentina are experiencing balance of payments and debt service difficulties, which prevent payments from being made when due on foreign debts. Approximately \$240 million in claims have already been received by the Bank and FCIA on short and medium-term supplier credits to private buyers around the world, and we are projecting an additional \$500 million this fiscal year, concentrating largely in Mexico.

As a procedural matter, I would like to note that claim payments under our medium and short-term guarantee and insurance programs are usually charged to income in the year paid, while recoveries are taken into income in the year received.

I believe that we will recover on most of the claims received by the Bank. Many of them arise from transactions involving private buyers, who will continue to remain in business. Governments seem increasingly to be taking steps that will enable buyers to obtain the foreign exchange needed to service their overseas indebtedness. Moreover, if credit is turned off to these countries, they

will be unable to buy U.S. goods and services, which could endanger the U.S. and world recovery.

The private financial market is doing its part to help out these countries, but they cannot assume all of the risks. Consequently, Eximbank's financial support must be an element in the total U.S. Government efforts to combat protectionism, by providing a credit bridge across which trade can flow until recovery begins. That is why, for example, as part of a worldwide effort to help Mexico, we remain open for business there and, in particular, why we recently approved two credit facilities for Mexican financial institutions, in the amount of \$100 million each to be used to support short-term United States export transactions.

Mr. Chairman, this hearing was not called merely to review the policies of the Bank, but also to consider what changes, if any, should be made to the Bank's statutory charter. As you are aware, we have proposed only a 5-year extension until September 30, 1988, which is consistent with prior practice. We believe that the existing provisions of our charter give us the flexibility to operate our programs effectively and efficiently.

AMENDMENTS

I am aware, however, that a number of amendments will be proposed this year, and I would like to spend a few minutes addressing two of them.

First, there is a proposal to emphasize the supremacy of the Bank's mandate to be competitive over its policy of being selfsustaining. We are opposed to this proposed amendment. The ultimate effect of this and other similar proposals could be to put the Eximbank in the position of having to match precisely the terms and conditions of the financing offered by its counterparts throughout the world. I believe such an amendment is not needed. Eximbank is competitive, and its flexibility in responding to competitive needs on a case-by-case basis could be reduced, with the result that the Bank could end up having to use scarce resources unnecessarily.

Our competitors' programs vary enormously, from those with virtually no credit subsidies, such as Germany and Switzerland, to those with effective entitlement programs, such as the French. It would also be very difficult for Eximbank or any export credit agency to match precisely the support offered by each of the several export credit agencies which may be supporting their exporters, since the terms, conditions, and programs of export credit financing vary considerably. Instead of matching precisely, Eximbank provides, and should continue to provide, overall financing packages that are competitive with the assistance available to foreign suppliers.

Second, another proposal is intended to enable the Eximbank to act independently of the President by requiring the President to appoint directors to serve for fixed, staggered, 4-year terms. We oppose this proposal as well. While decisions to provide Eximbank support are made on the basis of objective, commercial, or financial factors specific to a particular transaction, they must also be examined within the context of the overall foreign economic and trade policy. Such policy considerations should be addressed by the Bank

in close coordination with the Departments of State, Treasury, Commerce, the U.S. Trade Representation, and the Federal Reserve.

For the Bank to function effectively, the Board of Directors should be as responsive as possible to the directives of the President and the requirements of the administration's program. Furthermore, Eximbank is not a regulatory agency which engages in rulemaking or adjudication, and there are adequate safeguards to insure that the members of the Board of Directors act in a responsible fashion.

Thank you, Mr. Chairman. I am now prepared to answer any questions.

[Complete statement follows:]

STATEMENT OF WILLIAM H. DRAPER III

Mr. Chairman and Members of the Subcommittee, the Export-Import Bank's charter lapses on September 30, 1983. It was last renewed in 1978, and in the five years that have elapsed since then, it is no exaggeration to say that the world has changed and with it, Eximbank's role. Most of the changes have taken place in the past two years, when vital corrections in the economic policies of this country were made which are now beginning to have their impact both here at home and abroad.

Inflation has been brought under control; taxes have been reduced; savings are increasing; and interest rates are falling. As we emerge from the recession, we can expect the rest of the world to follow suit. But patterns of international trade have been disrupted, and protectionist sentiment is alive in this country and abroad. Moreover, buyers in some of our best markets are experiencing difficulties in paying their debts.

The challenge confronting the Administration over the next few years is to develop international solutions to global economic problems, to rebuild the network of international trade and to maintain and strengthen our commitment to free trade. The special challenge for Eximbank is to use our resources in ways that will meet the needs of U.S. exporters as they take advantage of the opportunities afforded by a global economy in recovery. Let me assure you that we will provide financing to U.S. exporters on terms and conditions which will be competitive with government-supported financing available to exporters from other countries.

Our interest rates have been reduced to the minimums allowed under the OECD International Arrangement. We are now making available both long-term and medium-term credits. With the exception of military items, all products or services of U.S. origin or manufacture are eligible for our loans, guarantees or insurance. We are staying open even in troubled markets throughout the world, because we have an obligation to assist those countries as well as our exporters in difficult times. Our program for providing guarantees of loans made in other convertible currencies is in full force and effect. And we are approving various combinations of direct loans and financial guarantees which enable us to provide full support for the entire financed portion of a transaction.

I would like to discuss some of these points in more detail. Over the past two years, as a result of the U.S. Government's vigorous leadership, we have largely succeeded in our efforts to do away completely with the subsidy element in export credit financing. Also, we were able to negotiate a common-line agreement on aircraft financing with the governments that comprise the Airbus consortium. The result of this agreement has been to eliminate financing as a competitive factor in aircraft sales. Most recently, we have been exploring within the OECD framework the possibility of further raising minimum interest rates for aircraft but allowing longer terms.

We have also reached agreement with other OECD countries regarding financing for non-aircraft capital goods. The result of these agreements has been to increase the minimum lending rates charged by official export agencies to near market levels. By the middle of last summer, a reduction of approximately fifty percent in the subsidy content of officially-supported export financing had taken place. Since then the decline in market rates has virtually eliminated the remaining subsidy.

Under the revised guidelines of the OECD's International Arrangement, minimum interest rates which were 7.5 to 8.75 percent when I joined the Bank are now 10 to 12.4 percent. On January 18th of this year, we reduced Eximbank's rates to

the Arrangement minimums, removing the last differential between our competitors' rates and our rates.

For fiscal year 1984, we are requesting the following: \$3.830 billion for direct loan obligations, which includes \$3.730 billion for regular loans and \$100 million for discount loans; \$10.0 billion for guarantees and insurance; and \$16.899 million for administrative expenses.

The \$3.730 billion being requested for regular loans will be used to support exports of items requiring repayment terms of five years or more. It will also be used to fund a new facility—the Medium-Term Credit Program. The purpose of this program is to fill a gap long existing in the coverage under our other programs. Specifically, we will now provide support for medium-term export sales that are facing subsidized, officially-supported export credit competition from abroad. In addition, the Bank is budgeting \$100 million for the discount loan program for fiscal year 1984 as we did in fiscal year 1983. Funds under this program are targeted toward small manufacturers.

The total \$3.8 billion figure requested for direct loan obligations in fiscal year 1984 is the same as we estimated for fiscal year 1983. These figures were derived from analysis of projected growth in U.S. capital goods exports which we convert into likely demand for Eximbank financing using factors based upon the historical relationship between Eximbank activity and export levels. We then verify this broad estimate by having Eximbank loan officers evaluate the conversion possibilities of all cases already received by the Bank plus cases identified as potential projects by the Departments of Commerce or State. We also consult extensively with the export community to get their views on specific project possibilities and the general demand for U.S. exports.

In short, our budget request is based upon a careful estimate of the needs of U.S. exporters in fiscal year 1984. If our resources are not fully utilized, the only reason will be that the economic recovery in the rest of the world may lag behind ours and keep down demand for U.S. exports. Conversely, we believe that our resources will be adequate even with the projected upsurge in demand for U.S. exports. Because U.S. market rates of interest should be below the minimum Arrangement rates of interest charged by Eximbank and other official export credit agencies, we think that many U.S. exporters will be able to compete using commercial financing with our guarantee. Thus, U.S. exporters should be able to draw upon our direct loan and guarantee programs.

However, if market rates go back up or if we are unsuccessful in negotiations with our major trading partners, the Administration is committed to making competitive financing available to U.S. exporters and the President has expressly stated in his budget message to Congress that he will request supplemental direct credit authority of up to an additional \$2.67 billion "if necessary to meet subsidized foreign officially supported competition."

Our targeting policy enables us to provide exporters with a choice of financing plans for the most highly contested long-term transactions. We can offer a direct credit of 65 percent of the export value, increased to 75 percent if the supplier participates with 10 percent financing at our same interest rate. We can also offer a financial guarantee covering the 10 percent supplier participation so that in effect we provide full coverage of the financed portion of an export transaction. Under another plan, we can cover 85 percent private financing in dollars or freely convertible foreign currencies when no direct credit is requested or needed to meet competition.

With respect to guarantees and insurance commitments, Eximbank's fiscal year 1984 budget requests a level of \$10.0 billion. This is \$1.0 billion above the limited approved by Congress for fiscal year 1983 and should give us adequate resources to provide risk protection under both our short- and medium-term programs as well as financial guarantees for project loans at market rates for the private sector. By contrast, as a result of the weak global economy, insurance and guarantee activity for fiscal year 1982 totaled only \$5.8 billion.

In addition to the financial guarantees which we offer in conjunction with the direct loan program, the Bank has several other guarantee and insurance programs. Eximbank provides risk protection on sales financed solely by the private sector. We offer medium-term bank guarantees which cover goods and services customarily moving on terms of 181 days to 5 years. Our export credit insurance programs cover both short-term (repayment up to 180 days) and medium-term transactions and are operated in cooperation with the Foreign Credit Insurance Association, an association of 42 private marine and casualty insurance companies. The \$10 billion figure we have requested should provide ample authority not only for the financial guarantee program, but for our other guarantee and insurance programs as well.

I want to make special reference to our programs which are designed to assist small business insurance programs, the Foreign Credit Insurance Association offers coverage against the political and commercial risks of non-payment on a small business exporter's foreign sales that is substantially higher than the coverage provided under standard insurance policies.

The Small Manufacturers' Discount Loan Program enables U.S. commercial banks to extend fixed-rate, medium-term export loans by providing standby assurance that the banks can borrow from Eximbank against the outstanding value of a medium-term foreign debt obligation. Usually, commercial banks are reluctant to provide fixed interest rates on medium-term transactions because of the substantial fluctuations in their cost of funds. In many cases, however, the U.S. exporter must be able to provide fixed rate financing in order to obtain a foreign order.

As I mentioned above, we are now providing medium-term loans for transactions which are normally financed on one to five years terms. In addition, the contract value of these transactions usually will not exceed \$5 million.

We have also set up a new program of loan guarantees to help export trading companies and other exporters. Specifically, we will provide guarantees of working capital loans that will result in exports of products that are unlikely to be sold abroad through other means. Most of the working capital loans guaranteed by Eximbank are expected to support exports from small, medium-size and minority businesses.

I mentioned earlier that buyers in many of our best markets are having problems in paying their debts, and in fact, there has been a substantial increase in the number of political risk claims received by the Bank. Countries like Mexico and Argentina are experiencing balance-of-payments and debt service difficulties which prevent buyers from making payments when due on their debts. Approximately \$240 million in claims have already been received by the Bank and FCIA on short- and medium-term supplier credits to private buyers around the world and we are projecting an additional \$500 million this fiscal year concentrated largely in Mexico. As a procedural matter, I would like to note that claim payments under our medium- and short-term guarantee and insurance programs are usually charged to income in the year paid, while recoveries are taken into income in the year received.

I believe that we will recover on most of the claims received by the bank. Many of them arise from transactions involving private buyers who will continue to remain in business. Moreover, governments seem increasingly to be taking steps that will enable buyers to obtain the foreign exchange needed to service their overseas indebtedness. At the present, however, Eximbank has no choice but to bear the responsibility for leadership in these troubled markets. If credit is turned off to these countries, they will be unable to buy U.S. goods and services which could endanger the U.S. and world recovery. The private financial market is doing its part to help out these countries, but they cannot assume all of the risks. Consequently, Eximbank's financial support must be an important element in the total U.S. government effort to combat protectionism by providing a "credit bridge" across which trade can flow until recovery begins. That is why, for example, as part of a worldwide effort to help Mexico, we remain open for business there and in particular, why we recently approved two credit facilities for Mexican financial institutions in the amount of \$100 million each to be used to support short-term U.S. export transactions.

Mr. Chairman, this hearing has not been called merely to review the policies of the Bank but also to consider what changes, if any, should be made in the Bank's statutory charter. As you are aware, we have proposed only a five-year extension until September 30, 1988, which is consistent with prior practice. We believe that the existing provisions of our charter give us the flexibility to operate our provisions of our charter give us the flexibility to operate our programs effectively and efficiently. I am aware, however, that a number of amendments will be proposed this year, and I would like to spend a few minutes addressing two of them.

First, there is a proposal to emphasize the supremacy of the Bank's mandate to be competitive over its policy to be self-sustaining. We are opposed to this proposed amendment. The ultimate effect of this and other similar proposals could be to put Eximbank in the position of having to match precisely the terms and conditions of the financing offered by its counterparts throughout the world. I believe such an amendment is not needed. Eximbank is competitive and its flexibility in responding to competitive needs on a case-by-case basis could be reduced with the result that the Bank could end up having to use scarce resources unnecessarily.

Our competitors' programs vary enormously from those with virtually no credit subsidies, such as Germany and Switzerland, to those with effective entitlement pro-

grams such as the French. It would also be very difficult for Eximbank or any export credit agency to match precisely the support offered by another export credit agencies which may be supporting their exporters, since the terms, conditions and programs of export credit financing vary considerably. Instead of matching precisely, Eximbank provides and should continue to provide overall financing packages that are competitive with the assistance available to foreign suppliers.

Second, another proposal is intended to enable the Eximbank Board to act independently of the President by requiring the President to appoint Directors to serve for fixed, staggered four-year terms. We oppose this proposal as well. While decisions to provide Eximbank support are made on the basis of objective commercial or financial factors specific to a particular transaction, they must also be examined within the context of overall foreign economic and trade policy. Such policy considerations should be addressed by the Bank in close coordination with the Departments of State, Treasury and Commerce and the United States Trade Representative and the Federal Reserve. For the Bank to function effectively, the Board of Directors should be as responsive as possible to the directives of the President and the requirements of the Administration's program. Furthermore, Eximbank is not a regulatory agency which engages in rulemaking or adjudication, and there are adequate safeguards to ensure that the members of the Board of Directors act in a responsible fashion.

Thank you, Mr. Chairman. I am now prepared to answer any questions that you or the members of your Subcommittee may have.

EXPORT-IMPORT BANK OF THE UNITED STATES,
Washington, D.C. April 5, 1983.

Hon. H. JOHN HEINZ III,
Chairman, Subcommittee on International Finance and Monetary Policy, Committee on Banking, Housing and Urban Affairs, Washington, D.C.

DEAR MR. CHAIRMAN: Chairman Garn has requested the views of the Export-Import Bank of the United States on S. 869, a bill "to amend the Export-Import Bank Act of 1945." I welcome the opportunity to expand my comments on the bill made at the hearing held before your Subcommittee on International Trade and Monetary Policy on March 22, 1983. Eximbank has carefully reviewed the provisions of the proposed bill and welcomes the spirit in which they have been drafted. We, too, wish to operate an Eximbank that will be as responsive as possible to the needs of U.S. suppliers as they seek to take advantage of export opportunities throughout the world.

In general, the Administration and Eximbank favor a simple extension of the Bank for five years until September 30, 1988. We believe that the existing provisions of the Export-Import Bank Act of 1945, as amended, give the Bank the flexibility to operate its programs effectively and efficiently. In addition, Eximbank has the following comments on specific provisions of the proposed bill:

1. *The requirement that Eximbank be fully competitive in all programs.*—As I mentioned in my testimony, we believe that this provision is unnecessary since Eximbank already provides competitive financing. Although you stated at the hearing that this provision is not intended to put the Bank in the position of having to match precisely the terms and conditions of financing offered by its counterparts, it is not clear what the provision would require Eximbank to do that it is not already doing. We are concerned that the provision could be used as an argument to force the Bank to provide specific kinds of financing simply because another export credit agency is willing to make them available, not because the U.S. supplier needs them in order to be competitive. Thus, Eximbank's ability to respond the competitive need with an overall financing package could be impaired, which could result in the Bank having to use scarce resources unnecessarily. In addition, the terms, conditions and programs of export credit financing vary considerably from one export credit agency to another, so that it can be extremely difficult for one export credit agency to provide the same kinds of financing as another. Finally, foreign governments may provide financing on terms that are so generous as to constitute foreign aid or a close proximity to it. I do not believe it is in our economic interest to match such programs.

2. *Extension of act; budget authorization.*—Eximbank has no objection to a six-year extension as opposed to a five-year extension. We are opposed to establishing program limits in this enabling legislation, since they are already specified in appropriations acts as part of the annual budget process which is designed for just this purpose. It is our understanding that program limits do not need to be specified in enabling legislation as a precondition to such annual authorizations in a regular or

supplemental appropriations bill. In any event, the proposed amounts for fiscal year 1984 are greatly in excess of what we project as needed. Fiscal year 1985 levels should be examined later this year as part of the budget process when better estimates can be prepared.

3. *Budget treatment.*—Eximbank has no objection to a GAO study of whether or not Eximbank should be removed from the budget. We would point out, however, that removing the Bank from the budget would not enhance significantly its flexibility, but would loosen controls over the budget process and understate the budget in terms of budget authority and outlays. In any event, Eximbank would still be required to compete for real economic resources with other government agencies, so that the President and the Congress would still have to look at Eximbank within the context of Federal credit assistance in general.

4. *Section 1912, domestic financing.*—We are opposed to any loosening of this section. Existing procedures already provide the Administration with the flexibility needed to handle situations involving violations of international arrangements on export financing. The proposed changes could result in Eximbank's funds being used for domestic sales instead of exports and even in situations where there is no sound reason to provide financing at all. Further, requiring Eximbank to match foreign financing into the United States will create an incentive for U.S. buyers to seek foreign bids even when purchases from domestic firms are intended. This provision could therefore expand Eximbank into a subsidized credit program for U.S. investment in general.

5. *Advisory Committee.*—We are opposed to the reestablishment of the Eximbank Advisory Committee. Many advisory committees already exist, including the President's Export Council, sixteen industry sector advisory committees and U.S.T.R.'s Export Finance Group. I believe that adding another committee would work against the streamlining of the Government, a goal we all share. The Bank is already accessible to individuals and business entities within the exporting and financing communities. Furthermore, we are strongly opposed to allowing members of the Advisory Committee to be present at meetings of the Board. Confidential business information is often disclosed at Board meetings, which could give Advisory Committee members competitive advantages over other U.S. suppliers.

6. *Directors' terms of office.*—Eximbank opposed the concept of fixed, staggered terms. While decisions to provide Eximbank support are made on the basis of objective commercial or financial factors specific to a particular transaction, they must also be examined within the context of overall foreign economic and trade policy. Such policy considerations should be addressed by the Bank in close coordination with the Departments of State, Treasury and Commerce and the United States Trade Representative and the Federal Reserve. For the Bank to function effectively, the Board of Directors should be as responsive as possible to the directives of the President and the requirements of the Administration's program. Furthermore, Eximbank is not a regulatory agency which engages in rulemaking or adjudication, and there are adequate safeguards to ensure that the members of the Board of Directors act in a responsible fashion.

7. *Congressional notification.*—Eximbank has no objection to the proposal which would raise the amount of a loan or guarantee which must be reported to Congress from \$100 million to \$250 million.

8 & 9. *Mixed credits.*—We are opposed to mixed credits and believe these provisions are unnecessary since the U.S. government is already vigorously pursuing efforts to negotiate the elimination of mixed credits or at a minimum to increase the concessionary amount. Moreover, requiring Eximbank and AID to administer a program jointly fails to recognize the different objectives and operational procedures of the two agencies. Moreover, we believe that there are likely to be few projects on which the two agencies can cooperate. We are strongly opposed to the appointment of a Mixed Financing Coordinator which would simply create another bureaucratic layer without resolving any of the issues related to mixed credits or the fundamental differences between Eximbank's and AID's programs.

Thank you for giving me this opportunity to restate the views of Eximbank on the proposed bill.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the President's programs.

Sincerely,

WILLIAM H. DRAPER III.

Senator HEINZ. Chairman Draper, you have three other members of the Board with you.

Do they have any comments?

Mr. DRAPER. Actually, we only have two, Dick Heldrige and Jim Yonge. Jim Hess is our treasurer and comptroller.

Senator HEINZ. We welcome Messrs. Yonge and Heldrige to the subcommittee.

One of the things that you remark upon is the mandate that is part of the legislation that I, Senator Garn, and others introduced yesterday to make the Bank more fully competitive.

As you're well aware, I'm sure, it doesn't require a precise matching—the word precise nowhere appears in it.

Indeed, the operative language is—and I quote—

Consistent with the Bank's mandate to support U.S. exports on terms and conditions which are fully competitive with export of other countries, the Bank shall consider the average cost of money as one factor in its determination of interest rates where such consideration does not impair the Bank's primary function of expanding U.S. exports.

What we're seeking to do is insure, quite frankly, that the Bank makes every effort to help American exporters meet what can be at times cutthroat competition. We have never started the export credit war that has been raging out there. We have been very restrained. But there are times when our restraint is taken as a sign of weakness.

As a result, the Bank, I fear, has not been able to support the kinds of credit that our exporters, frankly, simply can't compete without.

LOST SALES DUE TO INSUFFICIENT SUPPORT

Now, I say that because I believe that the Bank, because of its policies, because of its restraint, has indeed caused a considerable amount in the way of the lost sales.

Let me ask you, Mr. Draper, isn't it true that quite apart from all the private sector people who've come in and testified to us about lost sales, some people from the administration who have come down here—among them, Under Secretary Olmer—and testified to lost sales, that the Bank itself conducted a study of lost sales for the period July 1, 1981, through June 1982, in which they identified—you, yourself, identified \$900 million of lost sales due to insufficient Eximbank support.

Mr. DRAPER. Is that your question?

Senator HEINZ. Yes.

Mr. DRAPER. My answer is, Mr. Chairman, that we very strategically raised our interest rates when I first came in in order to help our negotiating position with the other countries. Two months later, they raised their rates. We went up, from 8¾ percent to 10¾. They came up, from 7¾ to 10. We closed the gap somewhat, and we went up to 12.

And since then, they have come up to approximately—well, exactly 11.3 for the majority of the countries that we do business with, medium-income countries.

In that period, because we felt so strongly that we should be both competitive and also take into consideration our costs of funds in setting interest rates, we may have lost some cases. I don't believe that the numbers you state are quite supportable.

But I think we don't deny that we did lose some business during this period of negotiation, which we feel was highly successful and was for the general good of not only the taxpayer but the exporter, in that currently, for example, aircraft can be sold on the basis of price and quality. And we think our planes are better than the Airbus planes. And as a result, I think we are doing very well in that regard.

And we really don't see financing having any strength in any negotiations that take place between the buyer and the seller.

As a matter of fact, on that score, I would point out that some of the Airbus people, the chairman and vice-chairman and the president, have all said that they would like something like the Eximbank to help finance them. They're getting concerned about financing.

I think we're in a very strong position today. And we are in other products, with the broader OECD arrangements.

So, the answer to your question is, well, we may have lost some sales in the past—I think I wouldn't have done anything differently, and I don't think the board would have done anything differently, because I think we've done the best by the exporter in the long run.

LOSS OF \$900 MILLION IN SALES

Senator HEINZ. We're always interested in your opinion, but we're trying to pin down a question of fact. And the fact that I'm trying to establish is whether or not this study by the Eximbank, in fact, concluded that during the period of July of 1981 through June 1982, you indeed concluded that you lost \$900 million in sales due to insufficient Eximbank support.

Did you have such a study or not?

Mr. DRAPER. I don't have my hand on the study at the moment. That's in the Competitiveness Report that we sent up to Congress? Is that what you're referring to?

Senator HEINZ. The study was part of the semiannual commitment follow-up. It included no aircraft, by the way.

Mr. DRAPER. That's appropriate.

But what were some of the other cases?

Senator HEINZ. I don't have all the cases in front of me. This involved nine separate cases, five of which were lost due to traditional foreign official financing programs, and four were lost due to mixed credits.

Let me give you one kind of specific example, because I think it's illustrative of how the policy of the Eximbank can be ruinous to a particular industry—in this case, oil field equipment and machinery. This is the kind of equipment and machinery used in exploration, drilling, and production of oil and gas, both on land and offshore. These have been major export items for equipment producers and numerous suppliers.

U.S. suppliers had a dominant position in world markets during the 1970s. Over 50 percent of U.S. production went to overseas markets. Rigs are a very big ticket item.

So, credit financing has played an increasing role in commercial success.

Because of the Eximbank's ill-advised loan policies and noncompetitive interest rates on the part of your bank during 1980, which was before you, but also in 1981 and 1982, those policies not only led to a loss of major business for U.S. producers but allowed foreign producers to enter that market for the first time on a large scale.

One equipment producer has documented over \$100 million in lost sales during this period. That's just one producer.

Eximbank would not consider loan applications for this material due to what you call a large order backlog.

Today, this industry suffers over 50 percent unemployment. That's why I said the policies of the Bank were ruinous in this instance.

Mr. DRAPER. Are you blaming the Eximbank for the decline in the industry?

Senator HEINZ. For the noncompetitive financing and for the loss of sales.

Mr. DRAPER. I think, Mr. Chairman, you are picking an industry that will never probably see such a size increase in volume as was seen in the late 1970s and 1980 to 1981. I think that was bound to happen. It became an oversupply situation.

BACKLOG OF FINANCING

With regard to our financing, when there was a very large backlog and when we had what we thought was a tight situation, in order to take care of a lot of exporters with the budget that we were given—half of which was pretty well committed before I got to the bank—we had to target. And we targeted away from rich countries and an industry like the oil equipment industry, where they had a very large backlog at that time.

Now, on the other hand, as soon as we saw that backlog dropping, we dropped that policy and went right to being fully available to that industry, as well as others.

Excuse me just a minute.

[Pause.]

According to this summary, between July 1981 and June 1982, that I'm holding in my hand—a summary of, I guess, the same report that you were talking about—we lost only five cases for official financing as a reason, price being one reason we lost eight cases—that's the price of the manufacturer's product. Three cases cases to mixed aid, which is another subject.

We do not believe in mixed credit, and we don't believe in giving mixed aid. As a result, we don't do it.

Now, that's purely up, I think, to the AID management. And I think we and they have cooperated on one case that I know of in Egypt. But to fight somebody else's AID program, I think you, in the Congress, have got to give us specific rules that you want us to do that. I would oppose it, myself.

And then, for other reasons than financing, we lost 17 cases out of those that came before us, but only five for financing. Four of the five were grandfathered transactions, prior to our agreement with the Europeans.

You know, you can criticize us for it, but we took a position that we wanted to get the OECD arrangement agreed to and locked in.

And we didn't grandfather any cases. We were taking the leadership in trying to bring the other countries up in their interest rates in order to reduce the subsidy which had grown to be \$10 billion among the top three or four countries in that OECD group in 1981.

So, I don't feel that I can be justifiably criticized for losing \$900 million worth of cases

"GRANDFATHERING"

Senator HEINZ. Just so everybody understands what you mean by the term grandfathering, in the case of, for example, one of those five contracts that you and I discussed at the time, which was a Westinghouse bid for a Seoul, Korea subway contract, the financing package had originally been agreed upon with the Eximbank and along came a competitor, later, with a better financing offer.

At which point Westinghouse went to you and said, "Listen, we need competitive terms."

You said, "No. You've got an agreement previously. We're not going to change the agreement. We're not going to give you those kinds of financing terms."

As a result, of course, we lost that subway bid. When I say "we," the United States lost it, Westinghouse lost it.

Mr. DRAPER. Could I correct you, sir?

Senator HEINZ. By all means.

Mr. DRAPER. We won that case. Westinghouse won that case.

And you're right, we didn't go back.

Senator HEINZ. This is the Seoul subway case, Seoul, Korea.

Mr. DRAPER. This is the Seoul, Korea subway case. Westinghouse, I'm sure, will tell you that they were the winning contractor.

Senator HEINZ. What happened, Mr. Draper, is that they had originally bid on the entire project.

When Westinghouse was unable to get competitive financing, what they did is they made a smaller venture. They participated with something. And as I understand, they wound up with a very small piece of what originally they had a large piece of.

Is that not correct?

Mr. DRAPER. I think the facts are that the Budd Company bid for the carriages in that case, and Westinghouse and Webco, two other American producers, bid for the electrification system and the signaling system. They both won their portions, and Budd lost their portion.

And Budd lost their portion, in my opinion, because their price was \$50 million high—item No. 1.

And item No. 2, the Koreans got the British, who were competing against the Budd case, to agree to build some 70 percent of the carriages in Korea. Budd would not agree to that, and only agreed to build some 30 percent, I guess, in Korea—or something on that order.

So, the point is our policy of holding—you're right, the others were grandfathered. Our policy had no impact, in my opinion, on the decision.

I'm glad you brought it up.

Senator HEINZ. There were five cases though, are there not, where we lost to officially supported —

Mr. DRAPER. There are five; that's right.

Senator HEINZ. You'd better check that.

Mr. DRAPER. There were three that were mixed credits.

Senator HEINZ. That's the point.

Mr. DRAPER. I don't understand that point.

Once in a while, you're going to lose a case—and you might have lost a case. But the point is, overall, you don't spend \$5 billion of the U.S. Government's money in order to win three cases, or six cases.

Senator HEINZ. Mr. Draper, you don't spend the money unless you win on the cases. It costs you nothing unless the bid is successful.

Second, the only point I've been trying to make—and it's been hard to get you to admit it—is that the Eximbank itself has a study documenting \$800 million in lost sales, five cases of which were because of noncompetitive financing, and three or four of which were because of mixed credits.

Now, it shouldn't have to take the subcommittee that long to establish a fact which you, yourself, know.

Senator Proxmire, my time has expired.

RECHARTER EXIMBANK FOR 5 YEARS

Senator PROXMIRE. Mr. Draper, your recommendation is that the Congress recharter Eximbank for 5 years without changing its charter, is that right?

Mr. DRAPER. Yes, sir.

Senator PROXMIRE. On page 10 you say you will resist the proposal to emphasize the supremacy of the bank's mandate to be competitive over its policy to be self-sustaining.

How strongly will you oppose that? Will you recommend that the President veto legislation to do that?

Mr. DRAPER. No. The strength of my recommendation rests on the fact that I think the language reads pretty well in that it mandates that we be competitive, but it also asks us to take into consideration the costs of financing the costs of our funds when setting interest rates.

Now when I first came to the Bank, we were headed for major losses, which worked out exactly that way, but it gave me a clear picture that some creativity was needed in order to be both competitive and self-sustaining, and in doing that I got very aggressively into the negotiations, personally involved, which for years had been going along without any changes.

I think the result was that we did bring about a reduction in subsidy by reducing the subsidy that our competitors would allow through negotiation, and I think it was an effective course. It was a beneficial course for all of us.

So I think that having the language read the way it reads is just about right. Now I am not going to go to the extent of recommending the President veto a bill because of that, but I would make my recommendation to you, the Congress, not to change the language.

Senator PROXMIRE. So you think it is wrong to provide what you regard as emphasis on the competitive over the self-sustaining, and you would resist that, only you would not recommend a veto, is that right?

Mr. DRAPER. That is correct.

Senator PROXMIRE. Now nowhere in your statement that I could detect was there an indication of the condition of the Eximbank today.

What is the profit and loss position of the Eximbank in terms of its average cost of funds and average charge on loans? Will the Bank sustain a loss for 1983, 1984, or 1985?

Mr. DRAPER. I think the answer to that is "Yes." The weighted average of our debt is now 11.3 percent. When you include the debt and the equity, it falls to 9.38, and the weighted average on the loans that we have outstanding are 7.97 percent.

So that there is still quite a difference. We are still paying more for our money than we are charging, and in a highly leveraged operation we will sustain quite a loss.

Senator PROXMIRE. For fiscal year 1983 you will sustain a loss. Do you have some idea what that will be?

Mr. DRAPER. We are projecting—as I pointed out in my testimony, we have some \$500 million of claims that we are expecting that we will pay some large portion of, perhaps all of that \$500 million. That will be a direct charge to income this year.

If that \$500 million came about, we, on top of that, have about a \$230 million loss. So the total is about \$730 million if those claims all come home to roost.

Senator PROXMIRE. That would be for 1983?

Mr. DRAPER. That would be for 1983.

Senator PROXMIRE. Can you tell us what the outlook is for 1984 and 1985?

Mr. DRAPER. For 1984, on an operating basis, we probably will lose. We have got our estimate at \$167 million. And again, it could go up as high as \$369 million because we would expect some additional claims. I think we have got an estimate of some \$120 or \$140 million in claims estimated for 1983.

Senator PROXMIRE. So you have a capital of about \$2 billion, and you have to sustain losses of this kind, and then we put into the law that you have to be competitive over self-sustaining, you are going to just about wipe out your capital.

Mr. DRAPER. It could happen. A lot has to do with how those interest rates come together. If the management of the Bank doesn't pay some attention to that, I think it would be very easy to get carried away and cut interest rates to the bone in order to buy the very last sale; in other words, be the absolute lowest bidder in every possible case.

Senator PROXMIRE. Then we would come to the very painful position where the budget that confronts us—we are very much aware of the deficits and all that—we would have to appropriate additional money, maybe \$170 million, to repair the capital of the Eximbank.

Mr. DRAPER. That is correct if the trend continues.

SMALL BUSINESSMEN COMPLAIN ABOUT LOANS

Senator PROXMIRE. Small businessmen come into my office complaining that Eximbank doesn't do much for small business. Most of Eximbank's commitments go to a few large firms.

They particularly say there is no sense in approaching you folks at Eximbank for a loan of less than \$500,000. What is your response to that?

Mr. DRAPER. We have no bottom limit.

Senator PROXMIRE. Can you tell us for the record how many loans of less than \$500,000 you have provided?

Mr. DRAPER. We can provide that for the record. I don't have the number.

[Information to be furnished.]

Senator PROXMIRE. Can you tell me off the top of your head what proportion of your loans are in that category of less than half a million dollars?

Mr. DRAPER. Again, I don't have it.

Senator PROXMIRE. Is it fair to say it is less than 10 percent?

Mr. DRAPER. Yes.

Senator PROXMIRE. It is less than 10 percent?

Mr. DRAPER. Yes, I would say so.

We have, of course, an insurance program that is very effective. It is really a bigger exposure than the direct credit side of our business, and the insurance side supplies some 139 policies for small businesses directly.

Then, of course, as we are all aware, small businesses do act as subcontractors to most of these large companies and participate when they make an export overseas. So it would be hard to get it exactly.

Senator PROXMIRE. I want to be sure I understand—139 individual separate small businesses. That is not very many, is it?

Mr. DRAPER. No, I agree. We are trying hard. It is a major concern of ours, and we are trying hard to reach those people.

We put on a conference just last Friday for exporters. We had 510 people turn out for it. And in that group there were a large proportion of small businesses.

We would like to do more. Reaching small business is a major problem, and we have got various programs to try and do that.

We have got a hotline.

Senator PROXMIRE. Let me make a suggestion. The small businessmen from my State suggest that you ought to set aside a modest amount of your funds, but a definite amount, for small business so that you can provide the loans to small business on a predictable basis, and we hope a substantial basis.

What would be wrong with that—a set-aside?

Mr. DRAPER. I wouldn't like it because I think it would cut down on the flexibility of the Bank. As the Chairman of the Bank, I think the one thing that I should try to protect is flexibility.

I think we can be a much more efficient and effective bank if we can use our funds according to need as it comes in during the course of that particular year. I think it is certainly—one set-aside tends to lead to another.

Senator PROXMIRE. I agree with that, and I think it is better if you could have a record that you could show us that small business is getting a reasonable share. But you agree that the 139 that get insurance is small.

You don't have any figures on how much of your loans are less than half a million, which is what would perhaps categorize a lot of small business.

So it would seem to me that a set-aside—while it is clumsy and it does interfere with your flexibility, it could be limited, and it seems to me it might do the job.

DISCOUNT LOAN PROGRAM

Mr. DRAPER. We do, you know, have a program that is only for small business in our discount loan program, and the discount loan program does not require that the small business show any competition abroad, which all the other manufacturers have to do.

They have to show that there is competition from officially supported foreign governments. We also have—in every insurance policy there is a certain retention by the exporter of risk, and that is half as much as for the others.

We do have programs to try and encourage them. In our total programs a lot of it is for—a lot of our export credit insurance is for short term, and that is a total number of authorizations of 1,716 policies.

So a lot of that is small business in very small amounts.

Senator PROXMIRE. I would appreciate it if you will give that to us.

Mr. DRAPER. We will get that for you for the record.

[Information to be furnished.]

LOANS TO MEXICO

Senator PROXMIRE. We have been reading in the paper lately on Eximbank having to make good on loans to Mexico. One article put the potential exposure at \$700 million.

What is the total Eximbank exposure to the LDC's, and how large losses can be expected?

Mr. DRAPER. The total Bank's exposure is about \$36 billion all together. A large portion of that is with LDC's.

Let me get you the exact numbers here. With regard to our Mexican involvement, just as a portion of that, it is something under \$3 billion, but it is about the second largest.

South Korea, we have \$3.5 billion.

Senator PROXMIRE. The question is how large losses can be expected. Give us a range.

Mr. DRAPER. As I said earlier, I think it would total about \$500 million for this year in claims that we are estimating. Of that Mexico is \$122 million for medium term, and Mexico is \$350 million for short-term claim payments that we expect that we might charge to income this year.

So that is the bulk of the \$554 million.

Senator PROXMIRE. Do you have to be funded by the Congress to make up for the losses?

Mr. DRAPER. No, no, we pay that. That goes to our income, and we will not, until we go through our reserve, which, as you pointed out, is \$2 billion. We have another billion of capital. So it is a total of \$3 billion—as soon as we went through our reserves of \$2 billion I think we would be back to you. (Laughter.)

Senator PROXMIRE. Thank you, Mr. Chairman. My time is up. I have several more questions for the record.

Senator HEINZ. Certainly, Senator Proxmire.

Senator HEINZ. Mr. Draper, I just want to clarify one thing on how you interpret the Bank's mandate.

On the one hand, you say you don't want to be told to be more competitive, but does that mean that you believe that the mission of the Eximbank is to balance competitiveness with self-sufficiency? Is that what you believe your mandate is?

Mr. DRAPER. I think the mission of the Bank is to help American exporters. I don't think anybody denies that.

How we help American exporters, you know, can't be completely legislated, but I think that we have a large amount of funds available to us, and I think we try to husband those funds and make our efforts felt around the world by being as competitive as we need to be, as we see it, in order to try and get the sale that wouldn't have gone forward otherwise.

That is one whole area of our field. The other is through our insurance and guarantee program to make available credit facilities that would help banks and exporters have the courage to make loans that they might not otherwise make, or exporters advance credit they might not otherwise.

Senator HEINZ. May I ask you about the direct credit program?

RESTRICTED FINANCING

Over the last two years or so have you restricted financing in any way with the explicit purpose of making the Bank more self-sufficient?

Mr. DRAPER. Restricted the funds?

Senator HEINZ. Yes. Lowered the cover, increased the interest rate? Done any of those things with the objective of making the Bank more self-sufficient?

Mr. DRAPER. We wanted to reduce the subsidies so the Bank would be more self-sufficient, so the Government wouldn't have as large deficits, or at least we could help you try and balance the budget. Yes, of course we did. That is the whole point of the negotiations.

That is the whole point of the strategy that I mentioned to you. When nobody else was raising interest rates, we led the way.

Senator HEINZ. Just so it is clear on the record, Mr. Hess, who is seated with you, wrote a letter on April 20, 1981 to the Comptroller General of the United States, with the Director of the U.S. Accounting Office, where he says, quite accurately, and I quote:

Eximbank has an explicit statutory mandate to provide competitive financing for U.S. exports. The Exim Act of 1945, as amended, states that the Exim is to provide U.S. exporters extensions of credit at rates and on terms and other conditions which are competitive with the Government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with U.S. exporters.

It further goes on to say in this paragraph there is no statutory provision requiring Eximbank to be self-sustaining. The Bank has been a self-sustaining institution as a matter of policy, incidentally, because there are more good years than bad years for the Eximbank.

You just mentioned that you have a \$2 billion reserve. That points up the fact that throughout its history the Bank has been able to be fully competitive, but because there are times when there are good years it has made money. That is why you have \$2 billion.

When there are bad years, you are not going to make money; you are not going to break even. And I think what we are talking about is how one manages the Bank over the long term without in the short term neutering it.

I apologize. I note that Senator Mattingly is back.

Mr. DRAPER. Could I just comment on that, though, Senator?

Senator HEINZ. By all means.

Mr. DRAPER. It wasn't until 1966—the Bank always charged more than its cost of money. Really, that is when it has built up the majority of its reserves. It continued to. Then it charged less than its marginal cost of money after that point because of competition.

But I mean times have changed substantially, and there is a much more competitive environment since that \$2 billion was built up.

Senator HEINZ. There is no doubt about that. I agree with that.

BUILDING UP RESERVES

Mr. DRAPER. So we can't kid anybody that we are building up reserves in good years when there is hot competition out there. I don't expect we will be building up any reserves for a long, long time.

Senator HEINZ. Do you expect to break even this year?

Mr. DRAPER. No, we are going to lose \$700 million. You just heard me say so.

Senator HEINZ. How much of that is going to be because of the writeoffs?

Mr. DRAPER. Of credit? Of claims? Five hundred million dollars.

No, we are in a loss mode for a number of years, and there is nothing we can do in an emergency way to change that without entirely changing our business, which I don't think you or I want to do.

So we are on the same side. I just think we have got to face up to the problem.

Senator HEINZ. Senator Mattingly.

Senator MATTINGLY. Probably all the questions have been asked by now, but I have a statement that I will put in for the record. [Statement of Senator Mattingly follows as though read:]

OPENING STATEMENT OF SENATOR MATTINGLY

Thank you Mr. Chairman. I have just a few brief remarks. I applaud your efforts to begin this formal review of the Export-Import

Act, and commend you and Senators Garn and Jackson on your bill, S. 869, to amend and renew the act.

If the international economy and trading system functioned solely according to the principles of free trade and comparative advantage, export financing would be a neutral factor in export competition among nations. I would certainly like to see the subsidy element in export credit financing eliminated. However, this element remains. Indeed, export subsidies offered to foreign competitors through Government-supported financing results in more business going to foreign firms at the expense of production and jobs in the United States.

Therefore, to insure the availability of competitive export financing, the U.S. business community will continue to require a strong and viable Export-Import Bank. By renewing the Bank's authority and moneys, the Congress can demonstrate to foreign countries that we will not allow U.S. firms to lose business to foreign firms through predatory subsidization of interest rates. In other words, the United States will continue to be prepared to match, and thereby neutralize, financial competition from foreign export credit institutions.

Having said that, I am nonetheless concerned about the lopsided nature of those beneficiaries of Eximbank financing. A few very large corporations like Boeing, Westinghouse, General Electric, and McDonnell Douglas, benefit the most from Exim financing. I believe the Bank should focus on providing competitive financing for exports of small and medium-sized businesses and agricultural exports. The benefits of increased export sales to these small U.S. businessmen and farmers must be realized and addressed.

Mr. Chairman, your review of this issue is commendable. I look forward to hearing from our distinguished witnesses though this week. Thank you.

Senator MATTINGLY. If the international economy and trade system functioned solely according to the principles of free trade and comparative advantage, we really wouldn't need the Eximbank. However, we don't live in that kind of world.

The export subsidies offered by foreign competitors are predatory subsidies that are causing a tremendous amount of job loss here in the United States.

Therefore, I think it is up to the Congress to make sure that the competitive financing offered by the Eximbank is going to serve the business community in the correct way. The Eximbank must insure that U.S. exports are just as financially competitive as the exports of our foreign trade partners.

LOPSIDED EXIMBANK FINANCES

I know questions have already been asked about the lopsided nature of the beneficiaries of Eximbank financing. Everybody is well aware that the majority of Eximbank loans go to the GE's, the Westinghouses, and the McDonnell-Douglasses of the world.

While I am sure it has already been covered, I would like to know what percentage of Eximbank money goes to small businesses or to agriculture. I think the benefits of the increased export

sales would be broadened widely if there were expansion in that area.

And I wish you would repeat to me, if you have already said it, what access does the small business person have to your Bank?

Mr. DRAPER. I come out of the small business environment. I was formally involved with the small businesses. That was my business: helping to form them and help them grow.

I was a venture capitalist and I have a real leaning in that direction, but it's very difficult in this business to just turn it on because when a company is making an export he needs a bank to help him finance it typically.

The Bank can usually do that job if the export is small enough and the pay and the timeframe is short enough so that banks when small business wants to make a shipment overseas of small items, whether they be paper clips or shoelaces, the Bank can fund those on a turning basis where they pay for the one lot and they make a loan for another lot and it keeps turning over.

Well, through our insurance policy we'll help that bank and the exporter have confidence that they'll get repaid in countries where they may be some question or to companies in foreign lands where there isn't a lot known about the company. So that we do take those risks and do help that exporter make that shipment.

By the same token, a large portion of our direct credit programs are for the large projects that banks really can't do. We're not trying to compete with the banks. If a bank can make the loan and will make the loan, we prefer that.

They do the majority of the financing of exports overseas in the current world environment, and they've been a much faster growing element in our economy than the Eximbank has been, and that's the way it should be.

Senator MATTINGLY. I know you don't want any changes made to the charter, but last year the Congress passed legislation permitting the formation of export trading companies. You know, there are businesses in our country that wouldn't even know how to go about utilizing the Eximbank. Maybe if there were changes made in the charter to bring more focus to small business needs, small businessmen would have more access to it. I think such a change in the charter would be valuable.

Mr. DRAPER. Right. I think it gets awkward when you start jiggling with something that works pretty well because you change it here a little and change it there a little, and you have an entirely different animal from what you start with.

That's what we're most afraid of. We really feel that we've got a lot of flexibility. I'm not saying we shouldn't change the charter just because everything is perfect, but I'm just saying that I think if you for example set aside some money for small businesses or dictate to us that we must take care of small businesses in priority over big businesses, I think you get into quite a difficult time and it may cut down a lot on our flexibility, and therefore our help to American exporters, and even a small business who participates with large exporters, as I say, much more than anybody recognizes, I think, here, or at least much more than I was aware of when I first came here.

Senator MATTINGLY. I would have agreed with you, maybe 5 or 10 years ago, but now that countries all over the world are excessively using export subsidies, it would behoove us to make the resources of the Eximbank available to the smaller companies in this country. They don't know how the Bank operates and they should have access to it. Maybe it's time to have a new agreement.

I'd like to ask you one other question.

MEDIUM CREDIT PROGRAM

Mr. DRAPER. Incidentally, I would say one thing: The medium credit program—which is brand new, 1 year—has never been done before. That does help smaller units to go forward, where in prior history other Chairmen of the Bank have always had to report to you in that competitiveness report every year that this was the weakest part of our program, the area where we were least competitive in medium term credits.

We now have a medium term credit program. We're hoping that that will catch hold. It isn't taking hold very rapidly so far.

Senator MATTINGLY. You have large and medium, and maybe you can narrow it down to small.

Mr. DRAPER. But I think medium term—it's not so much size but it's medium term. That is important. Then also we have—you know just this year started the export trading company financing which with the Exports Trading Act has, we think, got a lot of potential in the future to help small companies get started, and we for the first time will be financing with working capital loans these small companies rather than just financing the export itself, so this would be a loan we could take as we do take as security the inventory and receivables of a small business and we do a brand new startup—financing for a brand new startup, if we're trying to make that available.

And the Commerce Department has put on various seminars all over the country and we've participated. We've sent our man who's just in charge of that area along to explain how these small companies can get financed, so we're trying—and I agree with you, I think you've got your eye on the right ball, but it's very hard to bring about.

Senator MATTINGLY. Just the week before last I was back in my State—the Commerce Department just held some seminars in our State. One of the questions that came from the audience was, how do we get access to it? And I guess it's just a matter of advertising and publicity.

Mr. DRAPER. Right.

LOAN REPAYMENT TIME SCHEDULE

Senator MATTINGLY. One other question. Looking at Eximbank losses—and I guess from what I read, a lot of them are coming from the Latin American loan recipients—I am curious about the repayment time schedule.

What are the terms of repayment? Let me ask you to put on your economic hat. How much economic growth is it going to take in order to get those countries in the posture where they can repay?

Mr. DRAPER. I'm not an economist and I wouldn't dare answer that.

Senator MATTINGLY. Then let me ask you this. I believe it was said that the commercial banks had \$12.2 billion in outstanding loans made to finance the purchase of American exports through Eximbank credit guarantees.

I think at one time it was something like \$240 million, mostly from Mexico, if I understood. When do you expect to get repaid for that?

Mr. DRAPER. I'm going down to Mexico together with my general counsel and the vice president of our Latin American division. We're going on April 10 and we're going to talk to the senior Government officials in Mexico about just that question.

We would like their help in trying to get repaid promptly. A lot of those claims, most of them, are private credit.

Senator MATTINGLY. For what length of time are the loans made??

Mr. DRAPER. I was going to say that most of them are private credits and the Mexican Government has said that if you're a private company and you can't get foreign exchange to pay off your debts, because, as you know, in January I think the peso was 22 to the dollar, now it's 150 to the dollar—January a year ago. And it all happened so fast that they said:

Since you can't pay off those debts, if you make an arrangement to delay payment, a grace period of 4 years and then payment over 4 years, we'll give you the preferred exchange rate.

Well, that's an incentive for those people to negotiate with us because after we've paid the claim we become the direct creditor of course in these cases.

Senator MATTINGLY. Is that what's happening now? Rescheduling?

Mr. DRAPER. Yes. It has to do with rescheduling, so it may be—it'll be many, many years, is the point, before we do get it back, but we do hope that the Mexican Government will help make that fewer years.

Senator MATTINGLY. I agree with you, I think it's going to be a long number of years before all these debts will be repaid.

I want to ask you, when we're lending money to these countries, is it possible that Eximbank and IMF money ever crosses to come back and pay interest?

Mr. DRAPER. No. We and the U.S. Treasury and the Commodity Credit Corporation—the Commission, I guess, and the IMF and the commercial banks have all worked together, and I think can be proud of the way we've worked together in trying to use each other as a support mechanism to try and give Mexico and some of these other countries a safety net in order to try and get through this very difficult period.

There was a big shock period. I think the worst is behind us, and I think we will pull out without a major economic disaster, but I think the IMF is to be applauded as well as those other agencies that I mentioned, and international banks and commercial banks.

I think it's just a matter of working our way out of it with trying to keep our heads and not panic. And I think that's where the Ex-

imbank can be a real help in trying to keep this credit bridge open so that American exporters can continue to ship into Mexico.

You know, all of these lesser known countries have got to grow. In order to grow, they're going to have to borrow more money, and if all the banks and all the Government agencies are all panicked into reducing their credit exposures, why we'll all suffer, so I'd be for—we'll all be a lot more conservative, I'm sure, in the future, but there's nothing really the Eximbank could have done to be more conservative, in that we are an open insurance agency for just this kind of political shaking up that has occurred.

In other words, we have given security to those exporters and banks who have relied on us, and we've paid off on it this time and we charge a fee for that over the years, although it's nothing nearly enough, to pay a disaster such as this one.

But I think it's the right kind of program, I think it's an important program, and I think it keeps the economy rolling.

Senator HEINZ. Senator Mattingly, thank you very much. One last question to Chairman Draper.

APPROPRIATIONS FOR ONGOING PROGRAM

You are asking for \$3.8 billion, roughly, budget authority for your ongoing program; \$2.7 billion roughly for the war chest. Therefore in some ways you're asking this committee to authorize \$6.5 billion for this year; is that correct, for 1984?

Mr. DRAPER. We're asking for \$3.8 billion, which we feel we'll need as a minimum. Our maximum may be \$6.5 billion, and between the two numbers we're not really sure.

Senator HEINZ. I'm not saying that you're going to spend \$6.5 billion, I'm just saying you're asking us to authorize the appropriation of \$6.5 billion.

Mr. DRAPER. I don't think that's quite the way it's put in the budget, but however the President is. I'm not asking for it, the President is asking for it.

Senator HEINZ. Excuse me, the President is asking for \$6.5 billion; is that right?

Mr. DRAPER. No, I don't know that he is. He's asking for \$3.8 billion. Then he said he'll come back to you for a supplemental, if he needs more to meet subsidized—officially supported credit.

Senator HEINZ. What I take that to mean is that he will come back for a supplemental appropriation to the Appropriations Committee, but if we don't authorize—we're only going to have one authorization bill this year; in fact, this authorization is going to have to last for 2 years.

If we don't authorize the money, the Appropriations Committee can't appropriate it, even though the President sends down the supplemental.

So as I understand it, what you or the President is asking for is from this committee an authorization of roughly \$6.5 billion.

Mr. DRAPER. We really are not. We don't feel there's a need to specify the program limits in enabling legislation, since they're already specified in the Appropriation Acts as part of the annual budget process which is designed for just this purpose.

Senator HEINZ. We've been setting authorization limits in this committee on this program for a long time.

Mr. DRAPER. You set the \$40 billion limit, didn't you, for us? The overall authorization?

Senator HEINZ. Yes.

Mr. DRAPER. Well, that's different. You're specifying program limits by year and so on. You haven't been doing it in the past. If you want to do it, I guess that's your business.

Senator HEINZ. Here's what we're told to do by the Budget Committee. Once upon a time we could authorize over a multiyear period a lump sum, the \$40 billion.

We can't do that anymore. We are asked to, on an annual basis, by the Budget Committee through the reconciliation process, to break that down into annual authorizations.

Frankly, I don't see any way to comply both with the President and the Budget Committee but to authorize for the fiscal year that we're facing, fiscal 1984, the \$6.5 billion, but if you have some additional thoughts on how we can comply with our requirements and our mandate, let me know.

Senator MATTINGLY. As a member of the Appropriations Committee, I'll be glad to hear it.

Mr. DRAPER. I think, Mr. Chairman, our opinion is that it's not a requirement to put it into law, but I'm not an expert on this.

Senator HEINZ. Very well. Thank you very much.

I, too, have some additional questions for Chairman Draper and I'm also advised there are additional questions for the record from Senators who are not here.

Senator HEINZ. Senator Exon, please proceed.

STATEMENT OF J. JAMES EXON, U.S. SENATOR, NEBRASKA

Senator EXON. Mr. Chairman, thank you very much.

Mr. Chairman and members of the committee, I'm very pleased to be here today to testify on the reauthorization legislation to equip the Export Import Bank with the tools necessary to provide adequate credit support for U.S. exports.

My purpose, Mr. Chairman, is straightforward. I urge the committee to include in this legislation recommendations that mandate that the Bank initiate programs to assist in supporting this nation's agricultural exports, in addition to supporting exports of manufactured goods.

The reason for this is clear. Agricultural commodities have become this Nation's blue-chip exports in the past 10 years, providing us with a regular and growing surplus in foreign exchange earnings.

FOREIGN EXCHANGE EARNINGS IN JEOPARDY

These earnings have been a vital element in offsetting oil price shocks and the trade imbalances of the past years.

This sort of earnings, however, is clearly in jeopardy. After stagnation at a more or less stable level between 1980 and 1981, agricultural exports fell from a level of \$43.8 billion in 1981 to \$37 billion in 1982.

This is a decline of 15 percent substantially below the 10 percent in the trade balance as a whole.

Mr. Chairman, the outlook for 1983 is worse. The slowdown in agricultural trade will probably account for a large part of the anticipated \$70 to \$80 billion trade deficit, and the effect on the agricultural economy, which cultivates 40 percent of its acreage for export, will be severe.

The reasons for the slowdown are numerous. They include the cumulative effects of the worldwide recession, increased competition, high dollar values in the international monetary markets, import curbs by countries in debt, and injudicious policies such as embargoes of textile quotas by our own Government.

Also important, however, are the unfair and predatory practices of foreign governments, which include production subsidies, export subsidies, and credit subsidies.

It has been my experience that exports support fares poorly in agricultural budgets when it competes with other items, while agriculture exports are not considered at all in the budgets of trade agencies.

The Commodity Credit Corporation does a good job, but its resources are limited and if the administration has its way, the ceiling on export credit guarantees in fiscal 1984 will amount to only \$3 billion, substantially under the \$4.8 billion requested for 1983.

It is clear that Congress must act to remedy this deficiency.

My concern is not a stop-gap remedy, but a measure to provide an ongoing and regular program that would provide analysis of overall agricultural export needs, and equip our exporters with resources that match those of foreign governments.

The Commodity Credit Corporation is not authorized to do this. Also, while I applaud the recent offer of wheat sales to Egypt and many of the features of the so-called export pick, these are perceived by our trading partners as irregular and therefore hostile actions.

I would prefer that we attempt to see a reliable ongoing program to safeguard our hard-won, foreign, agricultural markets, if that is at all possible.

Mr. Chairman, I introduced Senate bill S. 510 on February 17, that would require the Export-Import Bank to develop an active program to finance agricultural exports, to enter into the participatory arrangements with the Commodity Credit Corporation, as indicated, and to report to the Congress on the adequacy of credit for agricultural exports.

I request, Mr. Chairman, that you consider incorporating its features in your proposal for reauthorization. Not to compete against other sectors for scarce resources, but to enhance the Export-Import portfolio of activities, and to bring about some necessary coordination in our programs to support agricultural exports.

Mr. Chairman, I request that a copy of my full statement and a copy of S. 510, and an explanation from the record of that measure be incorporated in the record.

Senator HEINZ. Without objection, so ordered.

[Complete statement and additional information follow:]

STATEMENT BY SENATOR J. JAMES EXON

Mr. Chairman and members of the subcommittee, I am very pleased to be here today to testify on how best to fashion reauthorization legislation to equip the Export-Import Bank with the necessary tools to provide credit support for U.S. exports. My purpose is straight-forward. I recommend to the committee that its legislative proposal on Ex-Im Bank reauthorization contain a mandate that the bank provide programs to assist in supporting agricultural exports, in addition to programs supporting exports of manufactured goods. In my judgment such a mandate is necessary to remedy this serious omission in the bank's current program of operations.

Few would dispute the growing importance of foreign trade to the U.S. economy, or deny that the Government must develop more effective means of guaranteeing our traders improved access to world markets. In this and other committee hearings, we have been presented with numerous statistics and analyses that demonstrate how vital trade has become to our national interests and also indicate that we must sharpen all of our tools to safeguard those interests. For example, we have learned that trade accounts for some 15 percent of our GNP; that each \$1 billion in exports generates 24,000 jobs, and that our export industries are highly competitive and efficient, accounting for four out of each new five jobs created.

Unfortunately, all is not well in the trade sector. We have also learned that the decline in our trade balance has sorely aggravated, if not actually caused, much of our current economic plight. According to some analysts, about 45 percent of the 2.6 percent drop in our GNP. Last year was due to the deterioration of trade. Forecasts for 1983 are not much better. We are looking at a probable trade deficit of \$75-80 billion or more that can take up to 1.5 percentage points off our GNP, and cause the loss of another million or more jobs.

Much less widely appreciated, however, is that these developments—the importance of trade and the adverse consequences of its decline—are even more critical in the agricultural sector than in the economy at large. This point cannot be overstated.

As the former Governor of the State of Nebraska, I have had first-hand experience of this situation. The fact that 40 percent of U.S. acreage is cultivated for export is clear evidence of the importance of trade to the U.S. farmer. It takes on added significance, when mirrored against the economic plight of this hard-pressed economic sector. Agricultural income is declining, crop prices are declining. Debt, however, is mounting. The effect is that economic recovery, if it comes, will probably come later and slower to the farm economy than elsewhere. No wonder that the farmer looks to export markets for some security in his earnings, and hopefully for some possibility of growth.

Farm exports also have importance to the nation at large that should also not be overlooked. Increasing in size from a value of only \$7 billion in 1970 to over \$40 billion in 1981, this nation's agricultural exports are surplus earners of foreign exchange. That surplus has been a vital element in our ability to absorb the oil price shocks of the past decade and continue to import essential products like oil.

The foreign markets for U.S. agricultural goods, however, are not growing, but are contracting. Some of this is due to world-wide conditions of recession, the tendency of some countries, especially the debt-burdened, industrializing countries, to curtail imports, and successive good crop years that have lowered prices and increased competition. Moreover, this country has done a lot to damage its own cause. Successive embargoes have cast doubts on our ability as a supplier and have severely depressed our sales to the Soviet Union. Misguided textile import quotas are presently jeopardizing our agricultural sales to China. And the dollar remains overvalued, still due in part to the restrictive policies of the Federal reserve.

With all of these problems, the U.S. agricultural sector remains the world's most highly productive and most efficient. There is no reason for it to lose foreign sales due to damaging national policies or unfair, predatory policies on the part of our trading partners. Production subsidies, export subsidies, credit subsidies, quota systems and other limits on imports have all been used to limit U.S. foreign sales of agricultural products, as well as industrial products. The Congress, including this subcommittee, is considering various possible remedies.

In considering remedy, I urge the subcommittee to remember that agricultural exports are doing worse than other sectors. Between 1981 and 1982, agricultural exports fell from \$43.8 billion to only \$37 billion, a decline of more than 15 percent. This compares unfavorably with a decline of less than 10 percent in total U.S. exports. Moreover, while the overall U.S. balance of trade deficit increased by \$4.5 bil-

lion, between 1981 and 1982, the surplus on agricultural trade declined by \$5.2 billion.

With this picture, it is evident that improved official credit facilities are absolutely essential to preserve our foreign markets for agricultural products and to maintain the economic activity necessary to generate agricultural exports in this country. Such facilities are necessary on a sustained and continuing basis, if our export credit posture is to be a credible match to our competitors'. Part of the problem we are currently having with the French and other members of the European community is that our credit subsidy on wheat was irregular. It is perceived as a hostile action rather than part of an ongoing program equipped to safeguard U.S. interests in the commercial marketplace.

Stop-Gap measures won't do the job. Experience shows that exports fare poorly in our agriculture programs where they must compete with all other items in the agriculture budget. The commodity credit corporation does a praiseworthy job in helping to finance agricultural exports, but its resources for this purpose are clearly insufficient. The President's budget for FY 1984, for example, requests only \$3 billion in export credit guarantee authority for the C.C.C., considerably less than the preceding year's \$4.8 billion. Despite the provisions of the food and agriculture bill of 1981, the executive branch has made no request to fund the medium-term export credit revolving fund. Congress itself had to initiate funding for this \$500 million facility, as well as funding for the blended credit program.

Ex-Im Bank has authority to finance and guarantee agricultural exports, but as a matter of policy does not do so—with the exception of a new program dealing with cooperatives. Because I believe that agricultural exporters deserve access to official credit programs on an ongoing, reliable basis, that reflects their importance to our national trade interests, I introduced a bill, S. 510, on February 17, that would require the bank to develop an active program to finance agricultural exports. The bank would be authorized to enter into participatory arrangements with the CCC, when indicated, and would be required to report to the Congress annually on the adequacy of credit for agricultural exports.

Realizing that EX-Im Bank's present resources are scarce, and demands on it may be heavier due to present conditions of international financial strain, I drew up this bill to enhance the Ex-Im Bank's portfolio of activities, but not to compete against other sectors for scarce resources. I request, Mr. Chairman that you consider incorporating its features in your proposal for reauthorization. Thank you.

98TH CONGRESS
1ST SESSION

S. 510

To amend the Export-Import Bank Act of 1945 to establish a program for the financing of agricultural exports.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 17 (legislative day, FEBRUARY 14), 1983

Mr. EXON introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To amend the Export-Import Bank Act of 1945 to establish a program for the financing of agricultural exports.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 2 of the Export-Import Bank Act of 1945 is
4 amended by adding at the end thereof the following:

5 “(d)(1) The Bank shall establish a program to increase
6 the Bank’s role in the financing of agricultural exports from
7 the United States. In establishing such program, the Bank
8 shall seek to achieve a level of participation in agricultural
9 export financing so that the ratio which the amount of credit
10 which the Bank extends and in which it participates to fi-

1 nance the export of agricultural commodities bears to the
2 ratio of the total amount of credit which the Bank extends or
3 in which it participates is not less than the ratio that the
4 dollar value of exports of agricultural commodities bears to
5 the dollar value of all commodities.

6 “(2) In carrying out this subsection, the Bank shall con-
7 sult with the Commodity Credit Corporation in order to iden-
8 tify the appropriate commodities for inclusion in the program
9 and to develop, where appropriate, loans and other forms of
10 export financing in which the Bank can participate with the
11 Commodity Credit Corporation.

12 “(3) The Bank shall make available for the financing of
13 agricultural exports not less than that part of any increase in
14 its lending and guarantee authority for any fiscal year begin-
15 ning after September 30, 1983, which bears the same ratio to
16 the total amount of such increase as the dollar value of agri-
17 cultural exports bore to the total dollar value of all exports
18 during the preceding fiscal year.

19 “(4) The Bank shall include in its annual report pursu-
20 ant to section 9 of this Act a full report on the program
21 established under this subsection, including a description of
22 the progress made during the year in achieving the goal set
23 forth in paragraph (1) and of the sufficiency of credit to meet
24 agricultural export needs.”.

[From the Congressional Record—Feb. 17, 1983]

By Mr. Exon:

S. 510. A bill to amend the Export-Import Bank Act of 1945 to establish a program for the financing of agricultural exports; to the Committee on Banking, Housing, and Urban Affairs.

FINANCING OF AGRICULTURAL EXPORTS

Mr. EXON. Mr. President, I rise to introduce a bill to require the Export-Import Bank to extend loans and issue guarantees to support this country's vitally important, but seriously threatened agricultural exports. I request it be printed in the RECORD.

These exports, which now account for one-third of U.S. farm production, are not only an essential source of income to the beleaguered and depression-struck farm sector. They are also a critical source of receipts in our national balance of trade, helping significantly to offset the overall trade deficit. In brief, agricultural exports offset the cost of about 40 percent of this Nation's imported oil.

Despite the high productivity and efficiency of U.S. agricultural producers, they are not faring well in foreign markets. Worldwide recession, high interest rates, low world commodity prices, international financial strain—and the unfair and predatory subsidy and trade practices of our competitors—are threatening this much-needed source of U.S. income. Agricultural exports are doing worse than other sectors. Between 1981 and 1982 agricultural exports fell from \$43.8 billion to only \$37 billion, a decline of more than 15 percent. This compares unfavorably with a decline of less than 10 percent in total U.S. exports. Moreover, as the overall U.S. balance of trade deficit increased by \$4.5 billion to its record high of \$31.8 billion between 1981 and 1982, the agricultural trade surplus decreased by \$5.2 billion.

With this picture, it is evident that improved credit facilities are absolutely essential to preserve our foreign markets for agricultural products and to maintain the economic activity necessary to generate agricultural exports in this country. This legislation seeks to provide a remedy to assuring that the agricultural exporters of this country have access to official export credit facilities commensurate with their importance in our foreign trade.

Specifically, this bill would amend the Export-Import Bank Act of 1945 to require the Bank to develop an active program to finance agricultural exports. The goal is that loans and guarantees on agricultural exports would achieve a ratio in the Bank's portfolio equal to their proportion of the value of total U.S. exports. The Bank would be required to allocate new lending authority or guarantee ceilings in such a ratio upon receipts.

In financing agricultural exports, the Bank would be authorized to enter into participatory financing or other cooperative arrangements with the Commodity Credit Corporation to assure the most efficient allocation of official U.S. export credit resources. Finally, the Bank would be required to submit annual reports to the Congress concerning its agricultural export financing activities and of the adequacy of credit for this purpose.

My purpose in sponsoring this legislation is to insure that a vital export sector receives the U.S. Government's full consideration in official export credit programs. Experience shows that exports fare poorly in our agriculture programs where they must compete with all other items in the agriculture budget. The Commodity Credit Corporation does a praiseworthy job in helping to finance agricultural exports, but its resources for this purpose are clearly insufficient. The President's budget for fiscal year 1984, for example, requests only \$3 billion in export credit guarantee authority for the CCC.

This is 38 percent lower than the preceding year's \$4.8 billion. Despite the provisions of the Agriculture and Food Act of 1981—Public Law 97-98—the executive branch made no request to fund the medium-term export credit revolving fund. Congress itself had to initiate funding for this \$500 million facility, as well as funding for the blended credit program—both of which are becoming increasingly important in U.S. sales of agricultural commodities abroad.

Similarly, the Eximbank has authority to finance agricultural exports. However, with the exception of a new program dealing with agricultural cooperatives, it does not do so as the result of a policy change adopted in 1976.

The resulting inadequacy of agricultural export credit facilities—or even coordinated consideration of the export credit needs of this sector—is no longer tolerable. The future of U.S. foreign agricultural markets is absolutely dependent on the

credit we extend to our customers, and the security of the U.S. farmer and exporter is similarly dependent on guarantees.

I urge my colleagues to join with me in supporting this bill, and request, Mr. President, that it be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 510

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 2 of the Export-Import Bank Act of 1945 is amended by adding at the end thereof the following

"(d)(1) The Bank shall establish a program to increase the Bank's role in the financing of agricultural exports from the United States. In establishing such program, the Bank shall seek to achieve a level of participation in agricultural export financing so that the ratio which the amount of credit which the Bank extends and in which it participates to finance the export of agricultural commodities bears to the ratio of the total amount of credit which the Bank extends or in which it participates is not less than the ratio that the dollar value of exports of agricultural commodities bears to the dollar value of all commodities.

"(2) In carrying out this subsection, the Bank shall consult with the Commodity Credit Corporation in order to identify the appropriate commodities for inclusion in the program and to develop, where appropriate, loans and other forms of export financing in which the Bank can participate with the Commodity Credit Corporation.

"(3) The Bank shall make available for the financing of agricultural exports not less than that part of any increase in its lending and guarantee authority for any fiscal year beginning after September 30, 1983, which bears the same ratio to the total amount of such increase as the dollar value of agricultural exports bore to the total dollar value of all exports during the preceding fiscal year.

"(4) The Bank shall include in its annual report pursuant to section 9 of this Act a full report on the program established under this subsection, including a description of the progress made during the year in achieving the goal set forth in paragraph (1) and of the sufficiency of credit to meet agricultural exports needs."

Senator EXON. Mr. Chairman, thank you very much for the opportunity to testify. I'll be glad to respond to any questions that might be in order at this time.

Senator HEINZ. Senator Exon, we very much appreciate your coming to the committee. We, just as you, have noted the very severe problems that American producers within the agricultural, manufacturing, or service providers, have experienced in encountering subsidized competition from our foreign competitors.

And we join you in objecting to that kind of unfair foreign competition. There are people throughout the United States who need to be told about the effects of the common agricultural policy of the EC and exactly what kind of a program it is, and why it is so objectionable to anybody who believes in free and fair trade.

Let me ask you this, though, about the Commodity Credit Corporation, which obviously has a good deal more experience in agricultural matters than the Export-Import Bank, or for that matter, this committee.

COMMODITY CREDIT AUTHORITY

You say that you would like to have an ongoing regular program to support agricultural exports. I agree with you.

But why not give the authority to the Commodity Credit Corporation, together with the resources to support that kind of authority, to that organization, rather than the Eximbank, which has a different kind of expertise.

Senator EXON. Mr. Chairman, I think your point is well taken. I would simply first say that the Export-Import Bank is an ever-

growing agency. And we're supporting it more and more as we go down the road.

I listened to the exchange between you and the officials of the Export-Import Bank here a few moments ago. It's quite clear to me that you are on the right course.

Far too much of our Government today is financed by later recommendations, from administrations in the past and this one, with regard to what we're going to do in foreign trade.

I believe that the chairman of this committee is basically a free trader and I'm a free trader for lots of good reasons.

I simply say that we're going to need more than just the expertise, even adequately funded, of the CCC to compete around the world today.

Not only are the other foreign governments that I indicated in my statement using a whole series of measures to promote their trade, including agricultural products.

But I think my basic thrust is we just have to expand our overall efforts. I would say that the Commodity Credit Corporation should be better funded by the administration.

But what I'm saying is that since agricultural exports continue to play an important role, about 20 percent of all of our exports, I think that this is something we should gradually get the Export-Import Bank in cooperation with the CCC into, if we're going to compete.

And we have to compete in the years ahead in the matter of agricultural sales.

What I'm suggesting is that we have a better blend of programs, not only an understanding of how those programs can best work, by encouraging at least more attention than has been given in the past by the Export-Import Bank to the important matter of agricultural exports.

Senator HEINZ. One comment. As you are aware, maybe you didn't hear the entire exchange, the Eximbank has been struggling the same as the Commodity Credit Corporation, for adequate resources to do the job over the last several years.

BILLION DOLLARS LOST IN SALES

Even the Under Secretary of Commerce has come before this committee and testified that because of inadequate Eximbank policies and resources, we lost a billion dollars that they know about individually.

And you know how hard it is to document anything, particularly when it's one agency testifying contrary to the special interests of another around here.

That we lost a billion dollars in sales that they themselves personally knew of. So the Eximbank isn't exactly flush.

Now, it is true that the administration has come forward with a war chest concept. They're talking about \$2.7 billion. And I assume that what you're asking is authorization from some of that war chest be made available to help fight the kind of subsidies and competition that you're referring to.

Is that what you're asking for?

Senator EXON. You're right on track, Mr. Chairman. I anticipated that I would not get very far if I suggested that the funds presently appropriated without expansion go to agricultural credit.

Senator HEINZ. How right the Senator is. [Laughter.]

Senator EXON. I'm a little more realistic than that. But there are different ways to skin a cat. The bill I have introduced, what it simply says is that for additional funding, more emphasis be given, and that we start and insist on better cooperation between Commodity Credit, in this case, in the Export-Import Bank. And on agricultural trade, than we have in the past.

I guess what I'm saying is that I believe that if we have not only the Commodity Credit Corporation, but the Export-Import Bank, to some extent, as they get increased funding, also concerned about agricultural sales abroad, that we likely would have a chance to be more successful in meeting the competition, much of it unfair, around the world today.

Senator HEINZ. I thank the Senator. Are there any other questions of the Senator?

Senator PROXMIRE. In the first place, I'm delighted to see Senator Exon appear here. I think it's important to stress agricultural exports.

I think that's, of course, a vital part of our export market. The biggest by far of any industry. No question about it.

Senator HEINZ. I'm delighted to see the Senators for some support of agricultural exports.

Senator PROXMIRE. I'm for all exports.

Senator HEINZ. I didn't say whether you were for it. I said support for exports. [Laughter.]

Senator PROXMIRE. But the Senator from Nebraska says Eximbank. This is on page 5 of your statement. Eximbank has the authority to finance and guarantee agricultural exports.

But as a matter of policy, does not do so, with the exception of a new program dealing with cooperatives.

In the preceding paragraph, you discussed the fact that the CCC has a program. You say its resources are insufficient, and you say will be cut down to \$3 billion.

Wouldn't the most practical way to approach this in view of the fact that the Export-Import Bank is in difficulty now, they just testified that they're going to have losses for the first time in a long time, they have losses in 1983, losses in 1984, losses in 1985.

And those losses could exceed several hundred million dollars, maybe more.

Rather than come in and push them into this area, why not let the CCC, which is expert at this, proceed and simply maintain the level of last year's \$4.8 billion, instead of cutting it down to \$3 billion, as the administration proposed?

Senator EXON. I appreciate the question from the ranking minority member. It was the same question that was asked me by the chairman just before you came in, and we went into some discussion of that.

Senator HEINZ. Great minds think alike, Senator.

Senator EXON. I knew you'd say that, Mr. Chairman. [Laughter.] So I didn't think I should be redundant.

Senator PROXMIRE. If you answered, forget it.

Senator EXON. I think I've answered it, and it's in the record. I'll be glad to respond further, if you like.

AGRICULTURAL EXPORTS

Senator PROXMIRE. The other question I had, you talk about agriculture, and most of us think of agricultural exports as being handled by individual farmers. But there are very large corporations like Cargo, for instance.

Isn't that one of the big ones? Wouldn't that handle much of it?

Senator EXON. I think that would handle most of it.

Senator PROXMIRE. It's a very large corporation that has the lawyers, accountants, and the expertise, and deals familiarly with people in Washington.

Have they pushed for this kind of thing?

Senator EXON. Not to my knowledge. They have not pushed for this. This was basically something that I thought of, because I feel that we have just got to do a better job of pushing all of our exports; that includes manufactured goods as well.

I have done quite a little study during the last 3 years, with regard to this overall problem that we have with exports.

And No. 1, it's money. We have to have more money, and maybe one way of temporarily solving this problem would be just to go back, as you suggested, Senator Proxmire, and do a higher funding on the CCC.

I guess what I'm saying, though, is that I think and would hope, that we would recognize that we are a very large Nation; that it's important that we foster all of our exports from our factories or our farms.

COMPETITORS IN INTERNATIONAL MARKETPLACE

But I really believe that we have got to broaden our scope, and I think maybe that we should take a page out of the successful book of many other countries who are competitors of ours in the international marketplace, and broaden our approach.

Certainly if we could get the CCC funding back up to what it was last year, that would be a step in the right direction.

The bill that I introduced, though, what it really does is bring the Export-Import Bank into the area of permitting agricultural sales without doing any damage to what they're trying to do already.

More focus, I guess, more understanding, and more cooperation between the agencies of the Federal Government that are responsible for promoting international trade.

Senator PROXMIRE. Do you think they have an expertise in this area that the CCC does not have?

Senator EXON. I don't think they have the expertise in this area that the CCC has. But I suggest that they should have it.

Senator PROXMIRE. How about instead of changing the charter, how about simply good, strong report language?

Senator EXON. I'm not sure it would be changing the charter. I think it would just be changing the direction.

Now, what was the last part of your question?

Senator PROXMIRE. You say you wouldn't change the charter. All right. Fine.

Then instead of a change in the law, simply have a report accompanying the Eximbank extension, a report saying that we would hope they would give more attention to agricultural exports, and that they would fulfill the authority that they have in the law now.

Senator EXON. I think it's a good suggestion, and basically that's the basic thrust of the bill I introduced. And why I would suggest that you take consideration of it here.

And the least step I hope this committee would take would be to do what Senator Proxmire just suggested. Because in the bill, it mandates that there will be a report back to the Congress after consultation between the Export-Import Bank and the CCC as to how they could work jointly, separately, independently, to promote international trade in agriculture.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator HEINZ. Senator Lautenberg.

Senator LAUTENBERG. The opportunity to question someone senior when I'm so junior, and a good friend like Senator Exon, is one I'd like not to pass by.

Very quickly: Even New Jersey, with its dense population has a significant amount of agricultural production.

I am sure that we're going to agree with his views. Thank you very much.

EUROPEANS SUBSIDIZE EXPORTS

Senator EXON. Thanks, Senator Lautenberg.

Senator HEINZ. Senator, before you go, I'd just like to make one observation, which is that I'm convinced one of the reasons that the Europeans have gotten in so deep now in subsidizing their exports in the farm sector is that for a number of years, we just turned a blind eye and didn't attempt to fight that when they subsidized, as they started doing a number of years ago in the manufacturing sector.

I think this illustrates how when you don't confront these kinds of unfair trading practices aggressively, and end them by showing people that we're determined and serious not to take them lightly, and we're determined to take action to head them off. That one thing literally leads to another. Specifically to another worse thing.

The committee, I'm sure, will consider your suggestions. I don't know if I'm wholly persuaded yet that we shouldn't make an effort to increase the resources of the CCC.

Frankly, I think you can make a very good case, if they have the resources, they would be better able to help than the Exim.

But we won't make that judgment today. It is clear, though, that our agriculture can't simply be allowed to die on the vine, as it were, as a result of our export markets being taken away by foreign subsidized competition.

We thank you very much for being here.

Senator EXON. Thank you, Mr. Chairman. And I thank the other members of the committee.

Senator HEINZ. Our next witnesses are our panel: the Honorable William Morris, Assistant Secretary for Trade Development; the

Honorable William Krist, Assistant U.S. Trade Representative; and Marc Leland, Assistant Secretary of the Treasury.

STATEMENTS OF WILLIAM MORRIS, JR., ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE; WILLIAM KRIST, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRIAL AND ENERGY POLICY; AND MARC E. LELAND, ASSISTANT SECRETARY, DEPARTMENT OF THE TREASURY

Senator HEINZ. I'm going to call on Mr. Leland, then Mr. Morris, and Mr. Krist.

Mr. Leland, please proceed.

Mr. LELAND. Thank you, Mr. Chairman. We've submitted a statement for the record. I'll make a few comments, to begin with.

Senator HEINZ. Without objection, your full statement, and by the way, Mr. Morris and Mr. Krist both have lengthy statements. We will put all of your full statements in the record.

The committee, I'm sure, would not mind if you shortened as well as summarized your testimony. I have often found that sometimes when people summarize their testimony, they often take more time to deliver it than if they give it delivered.

So if you can shorten as well as summarize, we won't object to that, anyway. But please proceed.

Mr. LELAND. With an opening like that, Mr. Chairman, should I just ask for questions? [Laughter.]

Not at all. We're very interested in what you have to say.

EXTENSION OF THE EXPORT-IMPORT BANK ACT

Mr. LELAND. I'm very pleased to appear before this subcommittee to support the administration's proposed legislation to extend the Export-Import Bank Act until September 30, 1988.

The administration strongly supports a simple extension of the Eximbank charter, with no amendments to the other provisions of the act. It's our feeling that the Eximbank has done a good job facilitating U.S. exports by countering foreign financing subsidies and overcoming deficiencies in private capital markets. We see no need to amend the existing Eximbank charter. The existing act has worked well, and the charter does contain the flexibility that we need.

Reviewing and renewing the Eximbank charter requires that we step back from the experiences of the last 5 years and consider the kind of Eximbank we really want in the future. Much of the analysis of Eximbank has been conditioned by our experiences in recent years. As we all know the last couple have been characterized by heavily subsidized export credits. During this period, the primary objective of Eximbank has been to neutralize the effects of foreign export credit subsidies.

The environment for trade finance, however, has changed rapidly, particularly over the last 6 months. And export credit subsidies are fading in importance. Ongoing developing country indebtedness however, has made a central issue of the availability of adequate export financing, as distinguished from the subsidy.

Export subsidies are a form of protectionism which the United States has pledged to avoid. The introduction of subsidies into the

international trading system will only aggravate the tensions arising from the total recession. Trade-distorting measures such as subsidizing exports injure not only the competing countries but the initiating countries.

Departures from free trade are not called for, in our opinion. If other countries do not play by the rules, we need to target our responses in order to meet those who are not playing by the rules, but not to try to launch a general subsidy program.

EXPORT CREDIT POLICY

The Administration's export credit policy continues to be based on three precepts:

(1) We oppose export credit subsidies. Such subsidies transfer resources from domestic taxpayers to foreign importers. They reduce the real gains of exporting. They distort trade, and they result in bloated government demands on credit markets.

(2) Export credit subsidies should be reduced and eventually eliminated by the international agreements.

(3) In instances where foreign competitors provide subsidies, financing from the Export-Import Bank should be targeted to assist U.S. exporters to meet competition where it is greatest.

I would now like to make a few comments on the Export Credit Arrangement, which is coming up for renewal on May 1.

We have made significant progress, we feel, in our quest to eliminate export credit subsidies. The U.S. Government over the past 2 years has negotiated improvements in the OECD Arrangement on Export Credits which have lowered the minimum interest rates offered by foreign export credit agencies. At the same time commercial rates have declined because inflation has come down.

These two developments have dramatically changed the export credit picture in the last year. The convergence of officially supported interest rates and commercial interest rates has largely eliminated direct interest rate subsidies for most borrowers. We have also obtained agreement from all participants to a prohibition of mixed credits, with a concessional level of less than 20 percent.

Given the present economic difficulties facing the European Economic Community, it will take a great amount of will power and tough negotiating stance for us to hold these gains at upcoming negotiations. We intend to concentrate our efforts on achieving a more flexible interest rate adjustment system that responds to market interest rate movements when they occur. This will remove the need for these painstaking semiannual negotiations on interest rate levels and will automatically preserve the gains we have made in banishing subsidies from the system. In other words, we want a system that will work no matter where interest rates move in the future. We intend to push hard for this.

DEVELOPING COUNTRY INDEBTEDNESS

I would like to make a few comments on developing country indebtedness. Since about the middle of last year, the international monetary system has been confronted with serious financial problems which have arisen as a result of the size of the debt of several key countries, the turn in the world economic environment and the

inadequacy of adjustment policies. In response, lenders begin to re-trench sharply, and the borrowing countries have since been finding it increasingly difficult to raise money to pay for essential imports. Last year, net new bank lending to non-OPEC LDC's dropped by about half and came to a virtual standstill for a time at mid-year. This really meant a lot less commercial export financing than the world has known for quite a while.

The Administration has launched a major effort to respond to these challenges. The primary focus of this effort has been the International Monetary Fund, for which we are seeking, as you know, a substantial increase in resources. Commercial lenders are increasing their lending, but even with these increases there is an important and growing role at this particular moment for Government guarantees. Consequently, support from Eximbank will be an important element in the total U.S. Government effort to provide credit.

The critical issues for trade finance are shifting in this new environment. Export credit subsidies have faded as the prime issue, and now it is the availability of export finance that has taken center stage. The existing Eximbank charter enables the United States to respond effectively to this rapidly evolving economic and financial environment. The primary objective of the Bank is to aid in financing and facilitating U.S. exports. The Bank will continue to support U.S. exports in the new environment. On account of the success of the arrangement of negotiations and falling commercial rates, an increasing share of Eximbank's support over the next 5 years will take the form of guarantees and insurance.

PRIMARY OPERATIONAL POLICIES

The current charter enumerates a number of objectives, goals, and policies for Eximbank. In terms of Eximbank's actual operation, the following have been and should continue to be the primary operational policies of the Bank: (1) to offer rates and terms competitive with foreign rates and terms; (2) to seek to minimize competition in government-supported export credits by negotiation; (3) to supplement, encourage, and not compete with private capital; (4) to offer rates that take into consideration the average cost of money to the Bank as well as the need to be competitive; (5) to offer loans for specific purposes with a reasonable assurance of repayment; and (6) to deny credit applications for nonfinancial, non-commercial considerations only if the President determines that such action would be in the national interest.

Eximbank has been and is competitive. It offers interest rates for direct credits now that are fully competitive with foreign, officially supported interest rates. We even offer foreign currency guarantees to neutralize the advantage of low interest rate countries such as Japan and Germany.

This latter achievement of our negotiations is often forgotten. We have negotiated for Eximbank access to the Japanese yen market, assured by the Japanese Government. So if the buyer would prefer yen financing because of its lower interest rate, the Eximbank has the facilities to provide that.

The administration believes that efforts to strengthen the competitive mandate are unnecessary. In formulating Eximbank policy, we recognize that it is very important for Eximbank to be competitive. Eximbank already provides financing on terms and conditions which enable U.S. suppliers to compete for export sales. Revising the present mandate could imply the Bank must exactly match foreign subsidies, including foreign aid for that matter. In all cases this would be potentially costly and undermine our own flexibility.

U.S. Government export credit subsidies are costly and are justified only if they are carefully targeted, explicitly temporary, and aimed with the strategic purpose of bringing other countries to stop the trade-distorting practices.

Finally, I would like to add a few comments, knowing your interest on Section 1912 of the Export-Import Bank Amendments of 1978.

One trade issue which has become particularly acute in the past year is the question of how the United States should respond to offers of subsidized foreign financing imports into our market. In this context, Section 1912 of the Export-Import Bank Act adds a useful weapon to the U.S. arsenal at a time when we are trying to persuade other major exporting nations not to subsidize trade.

The statute reinforces U.S. efforts to eliminate export credit subsidies, conserves Eximbank resources for use when foreign subsidies are most objectionable, and it applies directly to subsidies that are *prima facie* violations of the Subsidy Code. In that sense it complements our countervailing duty law.

DANGER OF AMENDMENT

We see a danger in amending section 1912 to make the provision of Eximbank financing to U.S. entities automatic. The danger is that the statute, instead of being a tool for enforcement of U.S.-trade policy, could become an entitlement program for any U.S. purchaser who can point to an offer of subsidized foreign competition.

For this reason we think the statute should continue to permit discretion in its application, if it is to fulfill its purpose of helping to keep U.S. industry competitive, while at the same time discouraging wasteful credit subsidies.

Therefore, in conclusion, the rapidly evolving economic and financial environment require that the Administration and Eximbank have the latitude to respond to changing export conditions in the world. The current conditions of the Export-Import Bank Act provide the needed flexibility.

The charter has worked well, even during a particularly difficult period, when heavily subsidized export credits were the central trade finance issue. With the virtual elimination of export credit subsidies at this moment, we see no need to strengthen further the Bank's competitive mandate, particularly since we feel competitiveness has been the primary goal of the Bank's operation over the last 5 years.

Therefore, we urge you to extend the act for 5 years.

Thank you.

[The complete statement follows:]

STATEMENT OF HON. MARC E. LELAND

I am pleased to appear before this Subcommittee to support the Administration's proposed legislation to extend the Export-Import Bank Act until September 30, 1988. The Administration strongly supports a simple extension of the Eximbank Charter, with no amendments to the other provisions of the Act. Eximbank has done a good job of facilitating U.S. exports by countering foreign financing subsidies and overcoming deficiencies in private capital markets. We see no need to amend the existing Eximbank Charter. First, the existing Act has worked well. Secondly, the Charter contains the flexibility which enables the Administration and Eximbank to develop different approaches toward negotiating improved export credit arrangements. Finally, the Charter allows the Administration sufficient latitude to adapt policies to changing needs.

Reviewing and renewing the Eximbank Charter requires that we all step back from our experiences of the last five years and objectively determine the kind of Eximbank we want in the future. Much analysis of Eximbank has been distorted by our experiences in recent years, which have been characterized by heavily subsidized export credits. During this period, the primary objective of Eximbank has been to neutralize the effects of foreign export credit subsidies. The environment for trade finance, however, has been rapidly and dramatically changing in the last six months. Export credit subsidies are fading in importance, whereas ongoing developing country indebtedness has raised questions about the availability of adequate export finance.

None of us wants an Eximbank Charter armed with the weapons and strategy to fight the last war but totally inadequate to meet new challenges. For this reason, I would first like to outline the Administration's export credit policy. Secondly, I want to summarize our assessment of the export credit environment we will face during the next five years. In particular, my testimony will focus on our international efforts to eliminate export credit subsidies, the impact of lower commercial interest rates on officially supported finance, and the consequences of developing country indebtedness for trade finance. Thirdly, I would like to explain how the existing Eximbank Charter best enables the United States to position itself for the future. Revision of the Charter, in particular strengthening the Bank's competitiveness mandate, could severely handicap these efforts. Finally, at the request of the Committee, I would also like to discuss Administration views on Section 1912 of the Export-Import Bank Act Amendments of 1978, which deals with subsidized financing in the U.S. market.

ADMINISTRATION EXPORT CREDIT POLICY

The Economic Report of the President, transmitted to the Congress in February 1983, provides an excellent summary of the international economic foundations on which we have built U.S. export credit policy. I would like to highlight some of those conclusions today.

During the 1970's the world's market economies became more integrated with each other than ever before. Underlying the growth in world trade and investment was a progressive reduction of barriers to trade. In spite of its huge benefits, however, this liberalized trading system is now in serious danger. Within the United States, demands for protection against imports and for export subsidies have grown; a combination of structural changes, sectoral problems and short-run macroeconomic developments has led to a perception that we are becoming uncompetitive in world markets. It has further been argued that the position of U.S. business is steadily eroding in the international marketplace, primarily because of the support given to foreign businesses by their home governments.

The practices of foreign governments raise extremely difficult issues for U.S. trade policy. The United States has customarily sought to preserve and extend the benefits of free trade. To do this requires resisting protectionist pressures at home while continuing to work for the elimination of the more objectionable trade-distorting policies of all countries. Moreover, trade distorting policies such as export subsidies are equivalent to the multiple currency practices of the 1930's. They are precisely the same "beggar-thy-neighbor" competitive devaluation policies which contributed to the great international tensions of that time and which were only resolved by the Bretton Woods Agreement of 1945.

Export subsidies are a form of protectionism which the United States has pledged to avoid. Reintroduction of subsidies into the international trading system will only aggravate tensions arising from the global recession.

Trade-distorting measures, such as subsidizing exports, injure not only the competing countries, but the initiating country, even when they are a response to for-

eign trade-distorting practices. Obviously, export subsidies result in significant direct budgetary costs for the initiating country. In addition, the subsidy fails to improve the trade balance or generate economic growth even in the short run. Such subsidies benefit one industry at the expense of non-subsidized industries and other taxpayers. Moreover, at least part of an export subsidy is transferred abroad, as opposed to domestic subsidy programs.

If foreign governments subsidize exports on a large scale, world prices for U.S. products are depressed as a result. Large countersubsidies by the United States would depress prices still further. With floating exchange rates, an artificial increase in exports—brought about by export subsidies—increases demand for dollars, thus raising the exchange rate. This leads to a further loss of competitiveness in those sectors which are not promoted. Thus, departures from free trade are not called for, and if other countries do not play by the rules, we should target our responses and not try to launch large countersubsidy programs.

Intervention in international trade by the U.S. Government, even though costly to the U.S. economy in the short run, may be justified if it serves the strategic purpose of increasing the cost of interventionist policies by foreign governments. Thus, there is a potential role for carefully targeted measures—explicitly temporary—aimed at convincing other countries to reduce their trade distorting activities.

Consistent with the basic thrust of the President's Report, the Administration's export credit policy continues to be based on three precepts:

(1) We oppose export credit subsidies. Such subsidies transfer resources from domestic taxpayers to foreign importers, reduce the real gains from exporting, distort trade, and result in bloated government demands on credit markets.

(2) Export credit subsidies should be reduced and eventually eliminated through international agreement.

(3) In instances where such subsidies are applied, financing from the Export-Import Bank should be targeted to assist U.S. exporters to meet the competition where it is greatest.

Within this context, Eximbank has an important role to play in supporting U.S. exports against official foreign predatory financing, helping to overcome imperfections in capital markets, and maintaining pressure on other governments to negotiate reductions in their own export credit subsidies.

EXPORT CREDIT ARRANGEMENT

We have made significant progress in our quest to eliminate export credit subsidies, an objective vigorously sought by both this and the previous Administrations. The U.S. Government has successfully negotiated improvements in the OECD Arrangement on Export Credits which have significantly raised the minimum interest rates offered by foreign export credit agencies over the past year and a half. For example, the minimum permissible rates for the most important credit recipients where most predatory financing has occurred were raised from 7.5 percent to 11.35 percent, an increase of 46 percent for those countries where most of the predatory financing has occurred. At the same time, commercial rates have declined as a result of our success in bringing down inflation. For a complete summary of these negotiations, I would like to refer the Subcommittee members to the September 16, 1982 report of the Department of the Treasury to the Congress entitled, "International Export Credit Negotiations (1981-1982)."

These two developments have dramatically changed the export credit picture in the past year. This recent convergence of officially supported interest rates and commercial interest rates has largely eliminated direct interest rate subsidies for most borrowers. Of the major trade financing currencies, only French franc interest rates are substantially higher than the current Arrangement rates, resulting in subsidies. Since a great deal of trade is financed in U.S. dollars (perhaps 40 percent or more), we have made a great stride in the right direction.

Given the present economic difficulties facing the Economic Community, it will take a great willpower and a firm commitment to free trade to hold this position. At upcoming negotiations we will concentrate our efforts on achieving a more flexible interest rate adjustment system that responds to market interest rate movements. This will not only be a more accurate system, it will remove the need for painstaking semiannual negotiations on interest rate levels. In addition, we have proposed measures to reduce government involvement in credits to the relatively rich countries. There was a preliminary negotiating session on March 1-2, and the Participants will meet again on April 25-27. If you wish, I could comment more on this during the question period.

Clearcut evidence of the success of our efforts is the recent Eximbank decision to revise the interest rates in charges on its loans. The Board reduced interest rates to the lowest levels permitted under the International Arrangement, without jeopardizing its financial position whatsoever. Thus, a major goal of this Administration and previous Administrations has been achieved.

We were successful in obtaining agreement from all Participants to a prohibition of mixed credits with a concessionality level of less than 20 percent. This prohibition took effect last October 15, as a specific part of the pledge not to derogate with respect to interest rate or repayment term. Previously, this category of mixed credits had been permitted, with prior notification to other Participants. This made it relatively easy for Participants to "buy" exports by adding a small amount of aid money to their financing.

The U.S. Government is pressing for even tighter discipline over mixed credits, and has proposed (1) a ban of all mixed credits that are not foreign aid, by raising the minimum permitted level of concessionality from 20 up to 25 percent; (2) prior notification for mixed credits with grant elements greater than 25 percent; and (3) a ban of mixed credits offered as lines of credit. By raising the minimum grant level, it becomes more costly for countries to offer mixed credits for export promotion, in terms of both budgetary cost and diversion of scarce aid resources.

DEVELOPING COUNTRY INDEBTEDNESS

Since about the middle of last year, the international monetary system has been confronted with serious financial problems which have arisen as a result of the size of the debt of several key countries, the turn in the world economic environment, and inadequacy of adjustment policies. In response, lenders began to retrench sharply, and the borrowing countries have since been finding it increasingly difficult to raise money to pay for essential imports. Last year, net new bank lending to non-OPEC LDCs dropped by roughly half, to about \$20-25 billion for the year as a whole, and came to a virtual standstill for a time at midyear.

The only fast way for these countries to reduce their deficits significantly in the face of an abrupt cutback in financing is to cut imports drastically, either by sharply depressing their economies to reduce demand or by restricting imports directly. Both of these are damaging to the borrowing countries and painful to industrial economies like the United States—because almost all of the reduction in LDC imports must come at the direct expense of exports from industrial countries. But as the situation has developed in recent months, there has been a danger that lenders might move so far in the direction of caution that they compound the adjustment and liquidity problems already faced by major borrowers, and even push other countries which are now in reasonably decent shape into financial problems as well.

In order to appreciate fully the potential impact on the U.S. economy of rapid cutbacks in LDC imports, it is useful to look at how important international trade has become to us. Trade was the fastest growing part of the world economy in the last decade—but the volume of U.S. exports grew even faster in the last part of the 1970's, more than twice as fast as the volume of total world exports. By 1980, nearly 20 percent of total U.S. production of goods was being exported, up from 9 percent in 1970, although the proportion has fallen slightly since then. High-technology manufactured goods are a leading edge of the American economy, and, not surprisingly, net exports of these goods have grown in importance. The surplus in trade in these products rose \$7.6 billion in 1970 to \$30 billion in 1980. Our trading relations with non-OPEC LDCs have expanded even more rapidly than our overall trade. Our exports to the LDCs, which accounted for about 25 percent of total U.S. exports in 1970, rose to about 29 percent in 1980. In manufactured goods, which make up two-thirds of our exports, the share going to LDCs rose even more strongly—from 29 percent to 39 percent. What these figures indicate is that the export sector of our economy is vulnerable to any sharp cutback in imports by non-OPEC developing countries.

An essential element in resolving debt problems is continued commercial bank lending to countries that are pursuing sound adjustment programs. In the last months of 1982 some banks, both in the United States and abroad, sought to limit or reduce outstanding loans to troubled borrowers. But an orderly resolution of the present situation requires not only the willingness by banks to roll over or restructure existing debts, but also to increase their net lending to developing countries, including the most troubled borrowers, to support effective, nondisruptive adjustment.

The Administrative is launching a major effort to respond to the increased indebtedness and balance of payments problems in many developing countries. The pri-

mary focus of this effort has been the International Monetary Fund, for which we are seeking a substantial increase in resources. Commercial lenders are increasing their lending, but with these increases, there is an important role for government guarantees during this transition period. Consequently, the support of Eximbank will be an important element in the total U.S. Government effort to provide a "credit bridge" across which trade can flow until recovery begins.

EXIMBANK IN THE NEW ECONOMIC AND FINANCIAL ENVIRONMENT

Much lower interest rates in all SDR currencies, coupled with much higher interest rate minima under the Arrangement than a year ago, present an opportunity for Eximbank to make increasing use of guarantees and insurance authority in the provision of competitive financing offers. Moreover, current trends in U.S. market rates and the expected financial status of many developing country borrowers may well enhance the shift of demand from credits to guarantees, since commercial lenders may require this additional inducement to increase trade credit to some countries.

Thus, the critical issues for trade finance are shifting in this new environment. Export credit subsidies will fade and perhaps disappear as key elements in export credit competition. Instead, the availability of export finance will take center stage in a world in which commercial export credits may become more difficult to obtain.

The existing Eximbank Charter will enable the United States to respond effectively to this rapidly evolving economic and financial environment. The primary legislative objective of the Bank is to aid in financing and to facilitate U.S. exports. The Bank will continue to support U.S. exports. On account of the success of Arrangement negotiations and falling commercial rates, an increasing share of Eximbank support over the next five years will take the form of guarantees and insurance. Most importantly, the Charter ensures that Eximbank's excellent guarantee and insurance programs are poised to do their part in providing a "credit bridge" to a number of developing countries. No amendment to the Charter is necessary to implement our basic policy to place increased emphasis on guarantees and insurance.

The current Charter enumerates a number of objectives, goals, and policies for Eximbank. In terms of Eximbank's actual operations, the Administration believes that the following have been and should continue to be the primary operational policies of the Bank: to offer rates and terms competitive with foreign rates and terms; to seek to minimize competition in government-supported export credits; to supplement and encourage, and not compete with, private capital; to offer rates taking into consideration the average cost of money to the Bank as well as the need to be competitive; to offer loans for specific purposes with a reasonable assurance of repayment; and to deny credit applications for nonfinancial noncommercial considerations only if the President determines that such action would be in the national interest.

Eximbank has been and is competitive. Eximbank offers interest rates for direct credits fully competitive with foreign officially supported interest rates and even offers foreign currency guarantees to neutralize the advantages of low interest rate countries such as Japan and Germany. In addition, Eximbank's guarantee and insurance programs are ready to respond effectively in the new competitive arena for trade finance, namely the increased importance of credit availability in keeping exports flowing.

The Bank will have ample budget authority to meet its objectives. For fiscal year 1984, the Administration is requesting \$3.8 billion in direct credits and \$10.0 billion in guarantees and insurance. These requests reflect the Administration view that credit availability rather than subsidized financing will emerge as the key trade credit issue. If subsidized foreign export credits again became a major problem, the Administration has pledged to seek up to an additional \$2.7 billion in direct credit authority. In short, we are poised to use Eximbank as leverage against foreign export credit subsidies; no additional legislative mandate is required.

The genesis of recent proposals to strengthen further the competitiveness mandate was the Eximbank decision in July, 1981, to raise interest rates above Arrangement rates and to charge an application fee in order to offset its deteriorating financial position. The new rates were 1.5-2.0 percentage points above Arrangement rates, but still as much as 5.0 percentage points below Eximbank's own cost of money, and as much as 10 percentage points below commercial rates. A few cases were lost because of financing. But the new rates helped protect Eximbank's accounts from a hemorrhage of its capital and reserves. The Bank did suffer losses, but those losses were contained within reasonable limits.

The Administration believes that efforts to strengthen the competitiveness mandate are unnecessary. In formulating Eximbank policy, we recognize that it is very important for Eximbank to be competitive. Eximbank already provides financing on terms and conditions which enable U.S. suppliers to compete for export sales. Revising the present mandate could imply that the Bank must exactly match foreign subsidies (including foreign aid) in all cases. This would be potentially costly and undermine the Administration's flexibility. First, it would make it more difficult for the Administration to limit the cost of export subsidies during periods of inflation, thereby sheltering exports relative to other sectors of the economy. Secondly, it would permanently lock Eximbank into providing subsidized financing. U.S. Government export credit subsidies are costly and are only justified if they are carefully targeted, explicitly temporary, and aimed at the strategic purpose of convincing other countries to reduce trade distortions. Finally, it would undermine our flexibility to develop different approaches toward negotiating improvements in export credit arrangements.

The other legislated policies of Eximbank allow plenty of latitude for the Bank and the Administration to deal with the emerging economic and financial environment. We can not afford to lose sight of the Bank's cost of funds in setting interest rates, particularly in the context of our efforts to control the Federal deficit. Eximbank's response to the credit availability problem is fully in line with the requirement to supplement, not compete with, private capital markets. Balancing this, the legislative requirement that there is a "reasonable assurance of repayment" for each transaction ensures that the Bank does not assume overwhelming commercial and political risks. Our ongoing efforts to improve the Export Credit Arrangement and the increased Eximbank use of guarantees and insurance are consistent with the mandate to minimize export credit subsidies. In our view, none of these objectives should be de-emphasized in the course of charter renewal. They all represent statements of important policy goals which, taken as a group, allow us to respond to the financial environment we expect.

SECTION 1912, EXPORT-IMPORT BANK ACT AMENDMENTS OF 1978

One trade finance issue which has become particularly acute in the past year is the question of how the United States should respond to offers of subsidized foreign financing for imports into our market. This issue received substantial attention in connection with the sale of Canadian subway cars to New York's Metropolitan Transportation Authority.

The Administration pursued a number of remedies in the MTA case. A significant countervailing duty finding was made by the Commerce Department and the Treasury conducted an investigation under Section 1912 of the Export-Import Bank Act Amendments of 1978.

The latter section empowers the Secretary of the Treasury, under certain conditions, to authorize matching financing from Eximbank for U.S. producers if "non-competitive" financing by a foreign government is "likely to be a determining factor" in a sale in the United States. As a major participant in the drafting of this legislation, the Chairman knows that the law defines "noncompetitive" as any financing which exceeds limits prescribed by international understandings on export credits. Thus, the statute wisely requires policy judgments, first as to whether Eximbank financing could be offered, and then as to whether it should be offered.

Context and Goals.—Section 1912 was designed, of course, (a) to help U.S. industry cope with subsidized competition, and (b) to backstop U.S. efforts to negotiate an end to subsidized trade finance. It is intended to be prospective rather than, as is generally true of the countervailing duty law, retrospective. Unlike the countervailing duty law, Section 1912 does not deal with injurious import competition since it requires no injury test.

But Section 1912 adds a most useful new weapon to the U.S. arsenal at a time when we are trying to persuade other major exporting nations not to subsidize trade finance. By focusing on derogations from the Arrangement's discipline, the statute reinforces U.S. efforts to eliminate export credit subsidies. It also conserves Eximbank resources for use when foreign subsidies are most objectionable. It applies directly to subsidies that are *prima facie* violations of the Subsidies Code. Finally, Section 1912 complements our countervailing duty law, which targets a broader range of practices not necessarily violative of international agreements but possibly harmful to U.S. industry.

Should Section 1912 be Amended?—This review of Section 1912's place in our trade strategy suggests that it serves our purposes well just as it is. The high visibility given Section 1912 proceedings by the requirement for (a) a direct approach to

the subsidizing government, and (b) the personal involvement of the Secretary of the Treasury is in itself a significant contribution to the attainment of U.S. policy objectives. We believe that the use of matching Eximbank financing can, in the right circumstances, be a similarly useful option under the statute as now drafted.

We see a danger in amending Section 1912 to make the provision of Eximbank financing to U.S. entities more automatic. This is that the statute, instead of being a tool for enforcement of U.S. trade policy, could become an entitlement program for any U.S. purchaser which can point to an offer of subsidized foreign competition. Indeed, some of the amendments which have been suggested could have the effect of encouraging U.S. purchasers to seek foreign competition in order to trigger an offer of Eximbank funding. The paradoxical result could be to institutionalize, rather than discourage, subsidized credit competition.

For these reasons, we strongly believe that the statute must continue to permit discretion in its application if it is to fulfill its purpose of helping to keep U.S. industry competitive while discouraging wasteful credit subsidies.

CONCLUSION

In light of the rapidly evolving economic and financial environment, the Administration and Eximbank require the latitude to respond to changing needs. The current provisions of the Export-Import Bank Act provide the needed flexibility.

The Charter has worked well, even during a difficult period when heavily subsidized export credits were the central trade finance issue. With the virtual elimination of export credit subsidies, we see no need to strengthen further the Bank's competitiveness mandate, particularly since competitiveness has been a primary goal of the Bank's operations over the last five years. Finally, we believe that Section 1912 must continue to permit discretion in its application.

The Administration urges Congress to extend the Act for five years, but not to amend the existing provisions. In our view, it makes no sense "to fix somethin' that ain't broke."

Senator HEINZ. Mr. Leland, thank you very much. Mr. Morris. Mr. MORRIS. Thank you, Mr. Chairman.

From a trade perspective, Eximbank's renewal ranks as one of the most important pieces of legislation this year. Eximbank is a key element of a vigorous and coherent U.S. trade policy.

I urge this subcommittee to report favorably on the extension of the Export-Import Bank Act to September 30, 1988.

TRADE DEFICIT ABOUT \$60 BILLION

The administration currently estimates a trade deficit in 1983 of about \$60 billion. By comparison, the 1982 trade deficit was \$24 billion.

We expect that U.S. exports will continue to be restrained by depressed overseas demand and the strong dollar. Imports, on the other hand, will continue rising as our economy recovers.

Foreign trade now constitutes a large and dynamic sector within the overall U.S. economy. Exports account for one job out of eight in manufacturing and one job out of three in agriculture.

Some leading high technology industries, such as aerospace, telecommunications, are highly export-dependent. Increased exports translate directly into sales for U.S. business firms and produce new jobs.

Exporters have testified repeatedly that adequate and competitive credit is often indispensable in promoting export growth. The private sector has traditionally provided most of the financing needs for export.

Nevertheless, Eximbank plays a vital supplementary role by providing guarantees and insurance to stimulate private credit. When

private credit is unsuitable because of term, risk, or interest rates, Eximbank itself may provide the financing needed.

COMPETITIVE CREDIT PROBLEM

Until recently credit competitiveness was a major problem. The administration conducted international negotiations to reduce credit subsidies provided by certain foreign governments. These were quite successful, and today private financing of exports is competitive or nearly so.

The issue today is more one of adequate access of credit. Of particular relevance is the debt problem of the developing nations.

Without exploring all the implications of the issue, I simply wish to make the point that sustained Eximbank credit support will be essential to assure continuity in U.S. exports.

In the expectation that the greatest need will be for adequate access to private capital, the administration has increased Eximbank's proposed 1984 budgetary allotment in the area of guarantees and insurance.

The administration also is requesting \$3.8 billion for loans and is prepared to request an additional \$2.7 billion to meet officially subsidized foreign competition.

I would like to address a particularly vexing and prominent source of trade distortion—mixed credits. These are, as you know, Government financing packages that include a foreign aid component and therefore carry softer credit terms than normally allowed.

They constitute a significant loophole in international trade guidelines that work to the detriment of our exports. The administration is deeply concerned about this issue. There are no easy answers.

Mixed credit financing can unfairly deprive competing suppliers of potential sales, even though they might offer better price or better quality. The administration is seeking to restrain this trade distorting practice in our negotiations.

In June 1982, we successfully raised the cost of mixed credits to the initiating country and made mixed credits assume more of the characteristics of true aid. We will continue pressing our negotiations in this direction.

OPPOSE EXIMBANK ADVISORY COMMITTEE

Finally, Mr. Chairman, the administration is opposed to the idea of requiring the Eximbank to establish an advisory committee for the private sector. Eximbank already has input from the President's Export Council, the 16 industry sector advisory committees, a group advising the U.S. Trade Representative on export financing, and other committees.

We believe that adding another committee to this number would work against the streamlining of the Government, a goal I know we all share.

Thank you, Mr. Chairman.

[The complete statement follows:]

STATEMENT OF WILLIAM H. MORRIS, JR.

Mr. Chairman, I am William H. Morris, Assistant Secretary of Commerce for Trade Development. I appreciate your invitation to testify on the renewal of the Export-Import Bank's charter.

From a trade perspective Eximbank's renewal ranks as one of the most important pieces of legislation this year. Eximbank is a key element of a vigorous and coherent U.S. trade policy. I urge this Subcommittee to report favorably an extension of the Export-Import Bank Act to September 30, 1988.

THE TRADE ENVIRONMENT

The Administration currently estimates a trade deficit in 1983 of about \$60 billion. By comparison, the 1982 trade deficit was \$36 billion. We expect that U.S. exports will continue to be restrained by depressed overseas demand and a strong dollar. Imports, on the other hand, will continue rising as our economy recovers.

Foreign trade now constitutes a large and dynamic sector within the overall U.S. economy. Exports account for one job out of eight in manufacturing and one job out of three in agriculture. Some leading high technology industries such as aerospace and telecommunications are highly export-dependent. Increases in exports translate directly into additional sales for U.S. business firms, both large and small, and produce new jobs in our most vital and dynamic industries.

We need also to bear in mind that foreign trade is a two-way street. Historically, export increases are accompanied by increases in imports, although not at the same rate of growth. Imports benefit consumers in the form of lower prices or more suitable products in many cases, but also can cause economic disruption in certain industrial sectors. Adjustment to import competition is difficult and painful, but we cannot ask other countries to accept U.S. exports if we preclude importing from them. Overall, the U.S. interest is in an open global economy that is relatively free of trade distortion.

THE NEW FINANCING ENVIRONMENT

In promoting export growth, exporters have testified in survey after survey that adequate and competitive credit is often indispensable. The private sector traditionally has provided most of the financing needed for exports. Nevertheless, Eximbank plays a vital supplementary role by providing guarantees and insurance to stimulate private credit. When private credit is unsuitable because of term, risk, or interest rate constraints, Eximbank itself may provide the financing needed.

Until recently, credit competitiveness was a major problem. This largely stemmed from the practice of certain foreign governments to subsidize export credits. The Administration conducted international negotiations to reduce credit subsidies on the part of certain foreign governments. As a result of our efforts, the long-term interest rates for the most important credit recipients have increased from 7.5 percent in 1980 to 11.35 percent currently, a significant reduction in subsidy.

Today, private financing of U.S. exports is competitive, or nearly so. This is a result of two factors: the Administration's success in negotiations and declining market interest rates. U.S. exporters now can secure private credit at interest rates at or close to rates provided by foreign suppliers. The issue today is more one of adequate access to credit, rather than competitiveness.

Of particular relevance is the debt problem of the developing nations. These countries take about 40 percent of U.S. exports, but are in need of financing. In part because of their well-known debt servicing straits and the withdrawal of some private financing facilities, these countries are having to retrench economically and are reducing imports from the United States and elsewhere. Without exploring all the implications of this issue, I simply wish to make the point that sustained Eximbank credit support will be essential to ensure continuity in U.S. exports.

In the expectation that the preponderant need will be for adequate access to private capital, the Administration has increased Eximbank's proposed 1984 budgetary allotment in the area of guarantees and insurance. The Administration also is requesting \$3.7 billion for loans and is prepared to request an additional \$2.7 billion if necessary to meet subsidized foreign officially supported competition.

Also, the Cabinet Council on Commerce and Trade is considering means of improving credit availability for U.S. exporters. Emphasis is on proposals and recommendations that benefit smaller firms and that rely primarily on non-Federal funding. The Cabinet Council already has approved Federal coordination with state export financing mechanisms and private export financing cooperatives and has taken cognizance of appropriate tax treatment for properly-structured cooperatives.

These accomplishments, though significant, do not mean that we have met our objective of neutralizing subsidies as an element of trade competition. We will continue our efforts to strengthen the U.S. export credit system and our negotiations to reduce credit subsidies. Our agenda still includes such items as aircraft and nuclear power financing, a differentiated rate system, and mixed credits.

MIXED CREDITS

I would like to address a particularly vexing and prominent source of trade distortion—mixed credits. These are, as you know, government financing packages for exports that include a foreign aid component and therefore carry softer credit terms than normally allowed. The Administration is deeply concerned about this issue. The problem contains numerous complexities, some of which I will mention below. There are no easy answers.

The true extent of the problem is difficult to determine as the available data are fragmentary and often anecdotal. To obtain a solid factual base, the Commerce Department has taken reports from OECD governments of the mixed credits they extended during the first 10½ months of 1982. The Subcommittee may be interested in the following principal results of our analysis:

There were 78 mixed credits reported during the period, of which France accounted for 23. Other countries reporting at least 10 mixed credits were Italy, the Netherlands, and Sweden.

Of the 78 mixed credits, data on degree of concessionality were reported in 71 cases. "Concessionality" represents the degree of softness of a financing package. Of the 71 cases, 59 were above the 25 percent level of concessionality required to meet the OECD definition of foreign aid. However, a large proportion of these appear to cluster just in the range between 25 and 30 percent level of concessionality.

The value of mixed credits reported totalled \$1.664 billion. This includes 34 cases with relatively complete information reported on value (\$1.417 billion) and another 16 cases with incomplete information reported (\$246 million.) The remaining 28 cases reported no value information.

Mixed credits were extended to 36 developing nations during the reporting period, but were concentrated in a few of these and in the more advanced developing countries. India, Egypt, Morocco, and Brazil received 13 mixed credits accounting for 56 percent of the total value reported. While advanced developing country recipients were as numerous as the poorer developing countries, they received two-thirds of the number of mixed credits reported and three-quarters of the total value.

Mixed credit financing can unfairly deprive competing suppliers of potential sales even though they might offer better price or product quality. While mixed credits by other governments might affect capital goods disproportionately, they appear to have limited impact as a share of total U.S. trade.

International negotiations can effectively assist in meeting this problem. As background, the international "Arrangement" guidelines on export credits allows governments to "mix" aid and export credits to create a more liberal financing package than the Arrangement allows for export credits alone. The Arrangement limitations are only that mixed credits be at a minimum 20 percent level of concessionality and that mixed credits be reported in advance if below 25 percent. These guidelines, while imposing a heavy subsidy cost on governments determined to use this practice, clearly have not curbed mixed credits sufficiently and need to be tightened further.

The Administration is seeking to restrain this trade-distorting practice in our negotiations. In June 1982 we successfully raised the concessionality level of mixed credits from 15 percent to the 20 percent level. In effect, this makes mixed credits cost more to the initiating country and assume more of the characteristics of true aid. We will continue pressing our negotiations in this direction.

Some have suggested that the U.S. Government might itself extend mixed credits. The Administration opposes initiation by the United States of mixed credits with a low degree of concessionality. We cannot expect to eliminate the unfair initiation of mixed credits by engaging in this practice ourselves. Further, current resources do not allow either Eximbank or AID to engage in an extensive program of mixed credits.

Please note particularly the Administration's concern about low concessionality mixed credits. Low concessionality mixed credits circumvent the credit groundrules of the Arrangement while conferring limited aid benefit to developing nations. It may be that some of these mixed credits are genuinely aid-motivated or reflect special political ties, but we suspect that many are extended to gain exports through unfair credit terms.

Highly concessional mixed credits are a different matter. These are functionally equivalent to tied foreign aid and are not objectionable. The issue is not the linkage to exports, but the concessionality of any financing package that is ostensibly for aid purposes.

Eximbank and AID have successfully *Matched* cases of mixed credits initiated by others on a selected basis. It has not proved necessary to match exactly the foreign mixed credit terms. U.S. products often are preferred and are purchased with only a modest component of U.S. concessional financing. It should be borne in mind that Eximbank matching of mixed credits is costly to the Bank.

ADVISORY COMMITTEE

I also understand that the Subcommittee is considering the possibility of requiring that Eximbank establish an advisory committee comprised of representatives from the private sector. The Administration is concerned about the proliferation of advisory committees, particularly those that may overlap with existing groups.

Eximbank maintains an open door to the views of the private sector and is already receiving considerable advice from interested parties. The President's Export Council and the 16 Industry Sector Advisory Committees, for which the Commerce Department acts as a secretariat, have freely commented on Eximbank matters. The U.S. Trade Representatives also has an informal advisory group specifically on export financing. All these views are made known to Eximbank. We believe that adding another committee to this number would work against the streamlining of the Government, a goal I know we all share.

Mr. Chairman, this concludes my testimony. I would be pleased to answer any questions you may have.

Senator HEINZ. Secretary Morris, thank you very much. Mr. Krist.

Mr. KRIST. Thank you very much, Mr. Chairman. I very much appreciate the opportunity to testify on the important issue of Eximbank charter renewal.

The Eximbank is a key component of a strong U.S. trade policy, and we have a very keen interest in insuring that the renewed charter will continue to enable the Bank to fulfill its important trade policy objectives.

TRADE POLICY OBJECTIVES

Let me just briefly comment on three trade policy objectives that we think are particularly important. In the past few years, as has been noted, Eximbank's primary role has been to neutralize foreign government export credit subsidies, subsidies that have been provided by other governments, principally to try to help their exporters gain increased market share.

Like other country targeting practices, this type of a practice can give an illusory comparative advantage to that country's exporters. We have seen examples of this practice in such areas as aircraft, nuclear powerplants, construction equipment, telecommunications, among others.

Often, less targeted industries have taken decades to develop their comparative advantage, expended a high proportion of their funds in research and development, and need to have equal access to the global competitive market in order to maintain the economies of scale that they need.

This role of the Eximbank will decline in the coming years as interest rates are dropping and we manage to tighten the international discipline in the OECD Export Credit Arrangement.

SHARE RISKS WITH PRIVATE LENDERS

An increasing role that we see is the need for the Bank to share risks with private lenders and facilitate access to credit for foreign purchasers. I think the need for this is emphasized today by the total outstanding debt burden of the non-OPEC developing countries of some \$575 billion, with about \$100 billion debt service charges on that debt alone.

As interest rates fall and we move closer to the goal of automaticity in the OECD Arrangement negotiations, this need for access to credit will become more and more important.

The Bank's role of guarantor and insurer of commercial sources of lending for exports to the developing countries and to other countries will grow in importance.

In addition to these two trade policy objectives, the Eximbank has an important role in helping us to realize some of our other trade policy objectives.

For example, with regard to other countries' use of trade distorting performance requirements, USTR and the Eximbank have been working closely together to insure that the trade impact of such performance requirements is fully considered in analyzing proposed loan transactions.

This will help supplement our multi-front approach on performance requirements, which includes such steps as our GATT complaint against the Canadians and an OECD work program.

TRADE POLICY CONCERN

Another trade policy concern is the use by foreign governments of export credit subsidies here in the U.S. market. Section 1912 of the Eximbank Act is one of a number of tools that we have at our disposal to deal with this problem.

As you may recall, subsequent to the award by the New York Metropolitan Transit Authority of 825 subway cars to Bombardier of Canada, we undertook a review of the tools available to us for dealing with this problem of foreign credit subsidies in our market.

We reviewed countervailing duty law, Subsidies Code dispute settlement, and section 301 of the Trade Act, in addition to section 1912. Our objectives in this review were to discourage foreign governments from offering subsidized financing in our market, providing effective and timely relief to U.S. firms that face such unfair competition, and to try to do this consistent with our economic and budgetary goals.

Finally, we want to discourage U.S. firms from requiring or seeking such subsidized financing from our trade partners.

As a result of our review, we agreed that the Secretary of the Treasury would consult with other agencies in the process of making his decision on the use of section 1912.

We agreed we would intensify our efforts in the OECD Arrangement negotiations to eliminate such subsidies to developed country markets.

We agreed to continue to educate U.S. purchasers to the problems of accepting foreign-subsidized finance in our market.

While section 1912 was not used in the MTA case, we nonetheless think it's an important tool that can be used, along with other tools, to deal with similar situations in the future.

COSTS AND BENEFITS OF EXIMBANK

Mr. Chairman, you asked that I comment briefly on the costs and benefits of Eximbank programs. The principal benefit of the Eximbank programs is that from a microeconomic perspective, the Eximbank helps to insure that key U.S. industries have competitive access to international markets.

This is critical for these industries, that which need the economies of scale and which often have products which have a long useful life that require maintenance and service support and where the initial sale is often critical to securing the follow-on orders.

There are, of course, costs with the Eximbank program. The borrowing places an additional strain on the private credit markets.

Where we have financing provided at fixed rates below commercial rates to offset foreign government subsidies, the U.S. taxpayer has to make up the difference, either directly or indirectly.

ELIMINATE GOVERNMENT-SUBSIDIZED EXPORT FINANCING

Over the long run, the only cost-effective solution is to eliminate Government-subsidized export credit financing. In the short run, however, we cannot allow other countries to cause long-run injury to our industries and to our competitive base through subsidized export credit financing.

Consequently, we are prepared to incur short-term costs to achieve our objective of eliminating this trade-distorting practice.

We believe the President's budget request for fiscal year 1984 for the Eximbank meets the trade policy needs that I have outlined.

As U.S. market interest rates fall, the larger amount in guarantees and insurance will assure our exporters have access to capital at competitive rates of interest.

The direct credit authority that will continue to be targeted against foreign credit subsidies should compensate for potential shortfalls in the private market for long-term fixed rate financing.

SUPPLEMENTAL DIRECT CREDIT AUTHORITY

Further, supplemental direct credit authority will be sought if the President determines that additional resources are needed to counter foreign credit subsidies.

The budget figures are based on demand projections by the Eximbank, by the Department of Commerce, and by the USTR. We believe they will be sufficient for the 1984 export needs.

This commitment should enable the Eximbank to fulfill its delicate mission of offsetting foreign government export credit subsidies and distortions in the private market for export finance, while not funding transactions that would have gone forward without U.S. Government support.

In short, we see the Eximbank as vital to insuring a level playing field for U.S. industry.

Thank you, Mr. Chairman.

I will be happy to try to answer questions.
[The complete statement follows:]

STATEMENT OF WILLIAM K. KRIST

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the Administration's position on the issue of Eximbank Charter Renewal. I am William Krist, Assistant U.S. Trade Representative for Industrial Trade Policy.

Eximbank is a key component of a strong and coherent U.S. trade policy, as is clearly recognized in the Bank's present Charter. We have a keen interest in ensuring that the renewed Charter will continue to enable the Bank to fulfill its role in furthering U.S. trade policy objectives.

As has been pointed out by the witnesses preceding me, U.S. export financing programs now are largely competitive with those offered by the foreign competition. The convergence of a number of factors—declining market rates of interest, substantive reform of the OECD Export Credit Arrangement, and changes in Eximbank lending policy—have contributed to this heightened competitiveness. Budget resources for the Bank for fiscal year 1983 and fiscal year 1984 should be adequate to accommodate the U.S. business community's need for official support, and to further enhance the strength of our export financing posture.

I would like to focus my remarks today on two issues—first, the changing role of the Eximbank in furthering U.S. trade policy interests and second, how we can best ensure that the Bank will be able to fulfill that role.

THE CHANGING ROLE OF THE EXIMBANK IN FURTHERING TRADE POLICY INTERESTS

Mr. Chairman, two of the most pressing problems facing us today in the area of international trade are the self-serving trade-distorting measures being adopted by some foreign governments to deal with domestic economic problems and the debt burden of the developing countries. The GATT Secretariat has documented that between 40 to 48 percent of all world trade is now conducted under some type of trade restriction. The increasing prevalence of trade-related performance requirements, non-competitive procurement practices, and explicit industrial targeting policies serve only to divert capital from its most efficient use with the associated reduction in benefits to the world economy as a whole.

The other pressing problem is the need to maintain trade flows, which are being impeded by a liquidity crunch in much of the developing world. Total outstanding debt of the non-OPEC developing countries this year will reach approximately \$575 billion including \$425 billion in long and medium-term debt and \$150 billion in short-term obligations. Debt service alone on these obligations is \$100 billion. Access to capital for these countries is essential both to ensure the integrity of the world financial system and facilitate much needed trade.

In the less than perfect economic environment that I have outlined, the U.S. Export-Import Bank plays an important role in furthering U.S. trade policy interests. During the course of the last few years, Eximbank's primary role has been to neutralize the trade distortions created by foreign governments in their attempt to gain market share through export credit subsidization. Like other targeting practices, export credit subsidies give products an illusory comparative advantage. Like other factors of production, these credit subsidies have become an integral part of the competitiveness equation. We have seen foreign governments utilize subsidized export financing in targeted sectors such as aircraft, nuclear power plants, construction equipment, and telecommunication equipment to name but a few. And we have increasingly recognized the crucial role that the U.S. Eximbank has and will continue to play in countering this particular type of foreign targeting practice.

While neutralizing foreign credit subsidies may have constituted the most important function of the Bank in the recent past, increasingly we will view the Bank as a means by which to share risk with private lenders and facilitate access to credit for foreign purchasers. As U.S. market rates of interest fall and we move closer to our goal of automaticity in the export credit negotiations, we envision an increased role for the Bank as guarantor and insurer of commercial sources of lending. There will remain still a need, though somewhat more limited, for direct lending on the part of the Bank, specifically to supplement the finite private market for long-term fixed rate financing and to counter remaining foreign credit subsidies. However, access to credit will be the focal point of Bank activities. Eximbank will continue to play a limited though critical role in providing and facilitating "bridge" financing to developing countries to ease them through short-term liquidity crunches.

In addition to neutralizing foreign government distortions and helping to provide needed liquidity for international trade, Eximbank also has a role to play in helping us to realize some of our broader trade policy objectives. As examples of this role, let me briefly note the issues of performance requirements and foreign export credit subsidies in our own market.

As you are aware, this Administration has a multi-front campaign underway to reduce other countries' use of trade distorting performance requirements. Studies done internally, by the Organization for Economic Cooperation and Development (OECD) and by the International Finance Corporation (IFC) have shown that use of these measures has grown and is widespread especially in the Newly Industrialized Countries (NICs).

USG actions currently underway to deal with these issues include (1) our complaint with the GATT over Canada's use of performance requirements; (2) a work program in the OECD on the use and trade effects of performance requirements; (3) development of a world-wide inventory of those measures; and (4) development of a more comprehensive USG strategy toward their use, including possible additional GATT cases.

In recent years, Eximbank has been taking into account the trade-distorting impact of foreign government performance requirements and in some cases has rejected financing transactions in which such requirements were involved. We expect and have been assured that the Bank will continue to follow this policy in the future.

Another trade policy concern is the use of foreign government export credit subsidies in our market. Section 1912 of the Eximbank Act is one of the policy tools at our disposal to help solve the problem of foreign subsidized financing of sales within the U.S. market.

Mr. Chairman, pursuant to the award by the New York MTA of the contract for 825 subway cars to Bombardier, Inc., of Canada, we undertook an analysis of the policy tools available to us to address this problem. Included in the review were U.S. countervailing duty law, Subsidies Code dispute settlement, Section 301 of the Trade Act, and Section 1912 of the Eximbank Act. Our objectives in dealing with this problem include discouraging foreign governments from offering subsidized financing on sales within our market; providing effective and timely relief to U.S. firms facing such competitions; consistency with economic and budgetary goals; and discouraging U.S. firms from requiring/accepting foreign subsidized financing.

I would note that as a result of our work in this area agreement was reached on the following:

The Secretary of the Treasury should consult with other interested agencies before making a final decision on the use of Section 1912;

Efforts within the context of the OECD Export Credit Negotiations to eliminate the subsidy element on official financing to developed countries should be intensified; and

We should continue to educate purchasers to the problems associated with requiring/accepting foreign subsidized financing on bids.

Probably the most effective deterrent to this practice, however, was the Commerce Department's final determination on the level of subsidy involved in the New York MTA case. If the Budd Company had not withdrawn its petition, the New York MTA would have been liable for countervailing duties estimated at \$97 million. The high visibility of the case, both at home and abroad will make both foreign governments and U.S. purchasers more reluctant to offer and to accept subsidized export financing. While it was not used in the MTA case, we continue to view Section 1912 as one of several important tools that should be maintained in the event that we encounter similar situations in the future.

ENSURING A STRONG AND COMPETITIVE EXIMBANK

Mr. Chairman, you asked that I comment on the benefits and costs of Eximbank programs. I would like to do so briefly now. The principal benefit of Eximbank programs is that from a micro-economic perspective, Eximbank helps to ensure that key U.S. industries have competitive access to markets, and that they can subsequently develop the economies of scale and generate the profit structure necessary for efficient and competitive production in the future. By and large, these industries are those that produce the highly complex, technologically advanced products requiring hundreds of millions of dollars in research and development to bring out new models. Generally, these products have a long, useful life which requires elaborate maintenance and technical service support. In essence, this means that the firm that wins the initial sale, also secures the major follow-on sales.

On the other hand, there are costs associated with Eximbank programs. Borrowing to finance those programs places additional strain on credit markets and redirects resources. In those instances where the Eximbank provides fixed rate financing at interest rates below commercial rates in order to offset a foreign government subsidized credit, the U.S. taxpayer makes up the difference, either directly or indirectly.

Over the long run, the only cost-effective solution to the problem of trade distorting credit subsidies is for all governments to eliminate subsidized export financing. In the short-term, however, we will not allow other countries to cause long-term injury to our competitive base through subsidized export financing. Consequently, we are prepared to incur short-term costs to achieve our objective of eliminating this trade distorting practice.

The costs and benefits aside, the final question to be addressed is how we can ensure that the Bank fulfills its important role in furthering U.S. trade policy objectives. Last September before this Committee Ambassador Brock highlighted two areas that needed to be addressed if the Eximbank was to meet the competitive challenges faced by our exporters in the future. First, that there be a greater recognition of the importance of competitive export financing programs to the achievement of trade policy objectives. Second, that there be a greater awareness of the longer term role to be played by the Eximbank. In deliberations on the Eximbank issue, the Administration has embraced both of these concepts, and from these deliberations emerged a commitment for a strengthened role for the Bank and a budget to enable the Bank to effectively carry out the role.

As you are aware, the President's budget request for the Bank includes \$10 billion in guarantee and insurance authority and \$3.8 billion in direct credit authority. Further there is a commitment to seek supplemental direct credit authority should the President, upon the advice of the Cabinet Council on Commerce and Trade, determine that additional resources are needed to counter foreign credit subsidies.

The high level of guarantee and insurance authority will allow the Bank to meet the export financing challenge ahead—specifically to ensure access to capital at competitive rates of interest. As U.S. market rates of interest fall, U.S. exporters, with an Eximbank financial guarantee, will be able to secure financing at or below minimum OECD Arrangement rates. Other guarantee and insurance programs facilitate U.S. exporters' access to both working capital for export-related activities and commercial financing for receivables. The guarantee and insurance budget for fiscal year 1984 is considerably higher than that of previous years, since we believe that this will be the area of greatest demand, contingent, of course, upon a low interest rate scenario.

To compensate for potential shortfalls in the private market for long-term fixed rate financing, we are also seeking direct credit authority of \$3.8 billion. This direct credit authority will continue to be targeted against foreign credit subsidies.

This decision to strengthen the Eximbank's role in furthering trade policy interest was made by the President. It represents a change in strategy facilitated by anticipated low market rates of interest and major reforms in the OECD Arrangement. I would note that the budget figures agreed to for fiscal year 1984 were based upon demand analysis projection done by Eximbank, the Commerce Department, and my office. We believe the budget request for fiscal year 1984 will be more than adequate to meet the upswing in demand for capital good export that is projected for fiscal year 1984.

In closing I would note that I believe that the long-term competitiveness of U.S. export financing programs depends upon a commitment on the part of the Administration and the Congress to an effective U.S. export financing program in order that Eximbank's important role in furthering trade policy objectives can be continued. This commitment, in turn, will follow only if the resources provided the Bank to fulfill its mandate to provide competitive financing and supplement the private market are carefully used. Eximbank's delicate mission is to offset foreign government export credit subsidies and distortions in the private market for export finance, while not funding transactions that would have gone forward without U.S. Government support. In short, Eximbank is a vital element in providing a level playing field to U.S. firms in international competition.

Thank you, Mr. Chairman, I am prepared to answer questions that you and the other Members might have.

Senator HEINZ. Mr. Krist, thank you very much.

You've all noted, quite correctly, that interest rates have dropped along with inflation rates and that for the most part, those interest rates are below the arrangement with the three of you—or your

three agencies—were involved in bringing about, directly or indirectly, the successful negotiation of.

Mr. Leland, my recollection is you were involved in those negotiations; were you not?

Mr. LELAND. Yes, Mr. Chairman.

WAR CHEST BILL

Senator HEINZ. Would you not agree that the reporting of the war chest bill by this committee to the Senate floor and the fact that the Eximbank was willing to meet fire with fire—on a few occasions they derogated long-term, as I recall, in some well-chosen markets in Africa just before you successfully concluded the negotiations—that those two actions were, indeed, helpful to you in achieving the successful negotiations that you achieved?

Mr. LELAND. They certainly were.

I led the negotiations. It was said that everybody was going down a path that would require us to do exactly what they were doing; everyone would end up being the loser.

The threat of that, I think, was every instrumental in reaching the agreement we finally reached. We had, as noted, some supporters—a lot of supporters among the OECD countries. But for those countries that gave us the most trouble, I think that those two factors—the prospect of a war chest bill and the derogations in term—were the most important in finally bringing them around to an agreement.

Senator HEINZ. Mr. Krist. Mr. Morris. Would you agree? Mr. Morris. Absolutely. [Laughter.]

Mr. KRIST. Yes, Mr. Chairman.

I think leverage always helps in a negotiation.

Senator HEINZ. I didn't expect this group to disagree, because you are out there on the frontline, and you know exactly what was happening.

I assume that's the thinking behind the administration's request for what I will call the standby authorization of the additional \$2.7 billion in budget authority. You want to be credible.

Mr. LELAND. That's correct.

Senator HEINZ. You don't want this to start all over again.

Mr. LELAND. We have to maintain the gains that we got last year. But with commercial interest rates down, it may be somewhat more difficult. Having the possibility of a supplemental budget request in the background will be very helpful.

MIXED CREDITS

Senator HEINZ. I think several of you have referred to the latest way of getting around the arrangement—at least in part—called mixed credits, foreign aid combined with official export credit financing.

Is that not the growing mechanism that Mr. Leland and Mr. Morris—I guess you both, although you didn't actually give it as part of your oral testimony, you referred in your written testimony, on pages 5, 6, and 7, to a number of instances that have been reported to the Commerce Department to the growing use of mixed credit.

Is it your opinion that mixed credit use is, indeed, growing and is a serious threat?

Mr. MORRIS. Yes; it is.

We identified \$1.7 billion in 1982 in the mixed credit area.

One thing we do not have is adequate reporting mechanisms. So, it could be even higher than \$1.7. But it is growing.

We know of at least nine countries that have instituted mixed credits last year.

Senator HEINZ. Do you see the same thing, Mr. Leland?

Mr. LELAND. The same problem.

We negotiated a ban on mixed credits with a grant element below 20 percent. In this next negotiation, we're trying to raise this threshold to 25 percent, as well as improving the reporting requirements.

NO-WIN POLICY

I think, again, it's a question of showing everyone else that mixed credits are a no-win policy, because everybody will start doing it. Other countries are fairly responsive in doing more reporting. But we just have to push it a little more.

Senator HEINZ. Is it you or USTR that carries the main burden of trying to do something about mixed credits.

Mr. LELAND. We do, in the Treasury and Export-Import Bank and in the export credit negotiations in Paris with the OECD. The negotiations center on two elements. One is the interest rate subsidy, and the other is the mixed credit subsidy.

Senator HEINZ. Mr. Krist, on the issue of mixed credits, do you have anything to add—with what Mr. Morris and Mr. Leland said?

Mr. KRIST. I would agree. We've done an extensive inventory on mixed credits. It turned out to be more common and more prevalent, I think, than we would have thought before we did the inventory.

As you noted, I think there were some examples that have come up with the loss of sales to mixed credits.

It is a problem, and it is one that we need to tighten the international discipline on.

Senator HEINZ. As I understand our negotiating objectives, as set forth by Mr. Leland, we're trying to get it up to around 25 percent.

The theory behind that is that if we get them up high enough it would be so costly as foreign aid that it really won't be used that much.

On the other hand, Mr. Morris, in his testimony, indicates—and perhaps he will correct me if I misunderstand him—he says, on page 6, that of the 71 cases, 59 were above the 25-percent level of concessionality.

Does that mean, as I take it to mean, that either we get up to 25 percent—but 25 percent won't have enough of an impact here to make a really big difference and really won't make it quite expensive enough for us to help clamp down and eliminate some of these mixed credit packages?

Mr. MORRIS. It needs to be increasingly higher than that.

The only thing we can do—and I'm sure Secretary Leland would say this—is take it in steps, because we can't bring them up to the point we'd like to have them.

Senator HEINZ. So, you've got what you think is an attainable objective, but not—put it this way, not as desirable an objective as you would like to have; is that correct?

Mr. LELAND. I think the objective is to get it up even higher. But as you yourself stated, it does start to get pretty expensive when you're giving away 25 percent of the deal.

Senator HEINZ. According to Mr. Morris' testimony, people think that 25 percent is affordable, because most of them seem to be doing it.

Mr. LELAND. Not most of them. Those that are doing it aren't doing very well themselves in many cases.

I think the answer is that we are working on it, making them perceive the fact that they're the ones losing by it. I think if we can get the threshold up to 25 percent in the future, we'd then like to get the threshold up considerably higher.

Senator HEINZ. In the legislation I introduced yesterday—you probably haven't had a chance to study it as carefully as you would like—we really are trying to set some policy parameters and to establish some credible threats, frankly, by giving authority for us to match mixed credits—threats, obviously, we hope will never have to be used, because the unused threat is a heck of a lot stronger than the threat you actually have to use.

To get the AID component to 50 percent or over as the proportion of total sales costs, would that be an expensive enough proposition that we would really, at that level, begin to discourage mixed credits?

Mr. LELAND. The official definition of foreign aid now is 25 percent. It gets pretty expensive when you get up to that level. You're giving it away at some point.

Senator HEINZ. Let me switch back to the arrangement for a moment.

What do you see as the compliance mechanism or incentive in the current export arrangement for people sticking by it? Does it need to be strengthened in any way?

Mr. LELAND. What is involved is the enforcement mechanism.

REPORTING PROCEDURES

Having now had an opportunity to watch the process for close to 2 years, I think the reporting procedures have substantially improved. You have a system with everybody watching everyone else.

Basically, there is an incentive to do so. If somebody cheats, for example, the penalty is that everybody else will start doing it. The whole system will come down.

There are also a number of other pressures involved in this. Realistically, there aren't that many countries that are opposed to our objectives, to be quite candid.

Senator HEINZ. Only one, consistently.

Mr. LELAND. To be very candid, there's one major country. That country is part of a group of countries in which there are a number

who feel at least as strongly as we do—or almost as strongly as we do about the export credit issue.

Senator HEINZ. You wouldn't by any chance be referring to the country known as France, would you?

Mr. LELAND. I won't mention names, Mr. Chairman.

France has obviously been the great difficulty. The French franc is right now the only currency of the five major SDR currencies that has an interest rate that's higher than the consensus rate for category 1 or category 2 countries.

France, as you may note, has a lot of problems of its own. It also has to carry on a number of negotiations with the rest of its community partners, who feel very strongly about the export credit issue.

If they start cheating on one thing, then they can't be trusted in any of the others.

I think that there are enough pressures on all participants in the export credit negotiations that everyone will comply with whatever is agreed to.

Senator HEINZ. I'm glad to hear that.

It's probably bad news in the mixed credit area, but it's good news in the export area.

Mr. LELAND. Unfortunately, there are a lot of ways of skinning the cat.

Senator HEINZ. But, coming back to mixed credits, I happen to feel that giving authority to the bank and AID to establish the mixed credit program, the mixed financing program, would give credibility to you and our negotiators.

I'm not saying you have to use it. But would it give you some credibility?

Mr. LELAND. My own feeling is we don't really need a mixed credit facility. The arrangement's ban on mixed credits with a grant element below 20 percent has made mixed credits so expensive, that they are not something we would necessarily want to use.

Senator HEINZ. But on the other hand—let me ask you this—you said, "Twenty-five percent is about the best we can get. We'd like to go a lot higher if we could ever get a lot higher."

But would it help you to get higher if you had this kind of credible threat?

Mr. LELAND. I think a credible threat of it happening, as was true with the war chest idea, is always there. If we don't continue to make progress, we always have that threat. I think we should try effectively to use it.

Senator HEINZ. Let me ask Mr. Morris and Mr. Krist if they would make some observations.

Mr. MORRIS. Sales and marketing being my specialty, I always felt that the more tools I had in my kit, the better job I could do.

I think it would help. It's one thing that the Cabinet Council of Commerce and Trade, headed by Secretary Baldrige, is examining right now.

We'd want to work through your committee, because we have some ideas in that particular area.

Senator HEINZ. Very well.

Mr. Krist, do you want to comment?

Mr. KRIST. I just note, as Mr. Morris did, that we are reviewing that.

I think we have used mixed credit ourselves in at least one case, and it is a tool that we could always dig into—where we needed it right now.

There are some limits on it, in that the AID's programs are concentrated in certain countries. Where we're confronted with mixed credit competition in non-AID countries, it makes it difficult to use that tool.

Senator HEINZ. Thank you for pointing that out.

My time has expired.

Senator Lautenberg.

Senator LAUTENBERG. Briefly, Mr. Chairman.

Thank you very much.

Since I'm relatively new in this process, as well as in the review of the specifics at hand here—

Senator HEINZ. Senator Lautenberg, you remind me a little bit about the fellow who says, "I'm new at playing this game of poker," and then proceeds to walk off with everyone else's chips. [Laughter.]

Senator LAUTENBERG. That's a reasonable objective, I think, Mr. Chairman.

We could have such an interesting exchange, but I'll pass up the opportunity.

You know what happens when you're junior.

Very directly, the question, as I see it, is how we support export opportunities and whether this is another subsidy.

Is it, in fact, not terribly different than protectionism?

What do we do, Mr. Krist? We talked about Bombardier. There was a remedy available, I think.

What was done? Was there anything done to get some recompense?

BOMBARDIER CASE

Mr. KRIST. On the *Bombardier* case, we really pursued a three-track approach. We initiated a dispute settlement complaint against the Canadians in the GATT subsidies code, we would like to have a finding from the subsidies code that this type of a subsidy is a *prima facie* violation of the subsidies code, where it's like the Canadian financing was, below the OECD range.

The Commerce Department expeditiously pursued the countervailing duty complaint filed by the Budd Co. and, in fact, had an affirmative finding when the Budd Co. withdrew the complaint.

Senator LAUTENBERG. Not to cut you short, but are we still in the stage of pursuing the objective? Or have we come to some kind of conclusion?

Mr. KRIST. The countervailing duty complaint is dispensed with, because the petitioner withdrew the petition, but not until, I think, the Commerce Department established the point that that was a countervailable action—and I think made the point very effectively.

It was interesting, in the recent Houston Metropolitan Transit Authority bid that closed in February, no foreign government offered subsidized financing as far as we're aware.

Senator LAUTENBERG. So you are saying the threat is almost implicit, as well as explicit, if there is no penalty but that we scared off a competitor. Did we scare them off, do you think, at a cost to the Houston Transit System of significant amount? In New York the MTA made its case quite clearly.

Mr. KRIST. I think that's always a conflict in these types of cases, where you have a real trade-off between the consumer costs and the producer costs. I think MTA made the point that the countervailing duty would cost an extra nickel for each straphanger. Over the long run, I think that our open trade system though is predicated on the concept of fairness, and if the industries don't compete on the same kind of ground rules, I think it really puts terrific pressure on that system.

NEGOTIATED INTERNATIONAL AGREEMENT

Over the long run, the right solution here is to have a negotiated international agreement not to provide those kinds of subsidies to our market, and I think that is the one that will best help the consumers and the producers.

Senator LAUTENBERG. The problem is that the rule in the ring in this case are not all the same as the Marquis of Queensbury. It seems we play by one rule. We're the Boy Scouts in many of these things. Our competitors and trading partners, don't have the same rules. The character of their banking is, of course, quite different. They don't have the same independent commercial banking system as we have here. I don't intend to give you a lecture on that; you know it all better than I do.

But how do we protect our industry? How do we protect our jobs? Do we sit by and click our tongues, point our fingers, and say don't do it?

I guess Mr. Olmer testified around September 1982 that the United States had lost \$300 billion and something like 1,300,000 jobs. Do we want a theoretical free trade environment and at the same time pay for it in real terms in our society?

What is the option? Mr. Morris.

Mr. MORRIS. Speaking for the Commerce Department, for our objective, it is to expand world trade and certainly not to constrict it. If we look at the area of mixed credits which is being examined now, we can come up with a mechanism that would at least give us some type of ammunition to fight with. I think the Arrangement that has been worked out between Eximbank and the other member countries is satisfactory at the present time. Our problem right now, which is hopefully a short-term problem, is the strong American dollar and the economic downturn worldwide.

Senator LAUTENBERG. The exchange rate is artificially set in many cases; right?

Mr. LELAND. I don't think the exchange rate is artificially set. The dollar is high.

Senator LAUTENBERG. Is the relationship with the yen a natural relationship?

Mr. LELAND. It is a market relationship. You can go through plenty of explanations of looking at the yen, but the problem is, of course, the Japanese market having been traditionally closed and still being closed. Commerce, STR and ourselves share the same major objective; the major push has to be to open that market. The fact that you have a closed market means that you are not going to have much investment flowing into that country. That, in a sense, distorts things. But as far as having a fixed rate, the Japanese have the highest real interest rate they have ever had, 6 or 7 percent. And they intervened last year, with many billions of dollars, to try to make the yen appreciate. They haven't intervened against the yen since 1980. They have always been intervening to try to make it appreciate.

That doesn't avoid the fact that the yen remains weak for factors that have to do with the Japanese closed market, both the closed capital market and the closed merchandising market.

Senator LAUTENBERG. So again, we are on the free market side, and yet there is a restrictive market. We just saw the arrangement made in Europe with France and Germany, in terms of the adjustment to their currencies. So is that a market rate exchange or is that a negotiated rate of exchange?

Mr. LELAND. The dollar is at this moment high, compared to a few years ago when it was low. The only way one can see it working is to have some form of a floating rate, which we have. The European Community has tried to fix rates within the Community, and they have a very close trading relationship and political and economic relationship that makes it to some degree feasible. But even there, they have had seven realignments, since the whole EMS began in 1979. They have had four since the Mitterrand government came in.

Even maintaining those fixed rates is very difficult for them. The only way you are going to maintain rates without distortions is if all governments are following the same type of policy. If you've got one with a high inflation policy and another with a low inflation policy, there is nothing a third party can do about it.

Senator LAUTENBERG. Again, we get to the fundamental philosophical issue. I respect very much Chairman Heinz' recommendation in his bill that we enforce the competitiveness of our opportunities. Perhaps there is a cost with the Bank. On the other hand, we're then playing the game the same way that our competitors are. We need the jobs, we need the revenue opportunities. I think we have to be a bit more aggressive.

Thank you, Mr. Chairman.

Senator HEINZ. Senator Lautenberg, thank you very much.

Just two quick questions. In addition to the \$3.8 billion of authorization and budget authority for direct credit programs for the Eximbank, am I correct that you have all testified in support of no more, no less of the authorization of \$2.7 billion of standby appropriation authority for the war chest type contingencies.

Mr. Morris, is that right? Mr. Leland.

Mr. LELAND. Yes, for additional amounts, as needed.

Mr. KRIST. Yes, on an "if needed" basis.

Senator HEINZ. I'd like to ask Mr. Morris one last question which has to do with the Eximbank program to foster and promote export

trading programs, something, by the way, that the Commerce Department has done an absolutely outstanding job educating our exporters and potential exporters to. They have held a number of truly well-attended and very valuable, if the comments of participants are taken as any measure, day-long seminars throughout the country. And I congratulate you, Bill, because I know you have been to a large number of them, and you look none the worse for wear, as other members of the Department of Commerce.

But we have an interest in seeing to it the Eximbank does support and promote export trading companies and is supposed to cooperate with the export trading companies in providing export financing adequate to meet the need for promotion and cooperation.

Now to meet this mandate, what the Bank has done is establish a program where you can get money. You pay 2 percent up front fee. And when that was first being thought of, the fee was considered to be too much of a disincentive, so the Bank said, "Well, what we will do is, we will allow that fee to be a part of the loan, and we will help finance the fee as part of the loan."

My question is, notwithstanding that amortization of the fee, is there still a rather large psychological disincentive created by that fee that is discouraging people from coming to the Bank for support for export trading companies?

Mr. MORRIS. Yes, sir. The Eximbank—I think their heart's in the right place in producing financing for the export trading companies—but the mechanism is still not quite perfected. So we need a little bit more rapid speed on the part of Eximbank, particularly the application blanks, for instance, need to be prepared. And we need to not charge high fees, because most of the intermediate and small-size companies that are coming forth with export financing are paying the highest dollar for their financing anyway. The larger corporations borrow money at a cheaper rate, as is true in most instances.

So it would be our judgment that it would be detrimental to build up the cost that you charge for export credit.

Senator HEINZ. What would you like to see the Eximbank do, specifically, and most importantly, to my mind, to help the small and medium-sized guys who do not have access to the cheaper money?

EXPORT FINANCING PACKAGES

Mr. MORRIS. Through the Cabinet Council on Commerce and Trade we have instituted a program to advise the States as they come up with export financing, some type of export financing packages. The inability to find funds is the major problem for the small and medium-sized exporter. We feel that we are beginning to get some real good cooperation from Eximbank. They have agreed to, hopefully, seek ways to help small and medium-sized companies going through the States to get export financing.

What's really needed is a sales and marketing program on the part of the Eximbank to show the small to medium-sized companies what's available at Eximbank and how to go about receiving that funding or that financing. We are working through the 48 district

Commerce offices to try to put this program together and also in concert with SBA.

Senator HEINZ. Finally, one last question.

Do you feel the Export-Import Bank, in its direct credit, its guarantees and its insurance program, particularly the former, is being as supportive of small business as it could be without respect to export trading companies? And if not, what would you like to see them do?

Mr. MORRIS. I think two of the new programs they have put in that were mentioned earlier by Chairman Draper are a step in the right direction. I think in one particular case, the paperwork that is involved for companies to apply for an Eximbank guarantee—

Senator HEINZ. You're referring to the discount loan program?

Mr. MORRIS. No, sir, the ETC program—are too extensive on the matters of SBA ineligibility and, therefore, deter companies from participating.

The other action that we can see is in this area of supporting State financing institutions, State export financing facilities, because the problem is bringing Eximbank expertise, bringing Eximbank funding availability down to the man in "Anytown, U.S.A." That is where we have the gap. You have got people in your state that would like to get Eximbank financing, but they don't know how to go about it. We need to do a better outreach problem, and enhance the programs that they are already putting into place.

PROBLEMS OF SMALL BUSINESS EXPORT FINANCE

Mr. KRIST. Mr. Chairman, I wonder if I could just comment on that? I think that the problem of small business export finance is very important, and I think we need to do a lot of work to try to see what we can do to strengthen it.

I would like to just comment, though, that I think there is a very real limit on what the Eximbank, particularly the direct credit program, can do. We did a fairly extensive study of how about 20 sectors financed their exports and what their needs were. And one of the relationships that we found was that the need for direct credit is much greater for commodities that have a long life, big ticket items. The smaller items that are sold off of the shelf, agricultural goods, that type of thing, don't need 5 or 7 years financing. A great deal of that is done by letters of credit and that type of thing.

I would very much agree with what Chairman Draper said this morning about the problem with a lot of earmarking of Eximbank programs. I think it weakens their flexibility from providing financing where it is really needed in the United States.

Senator HEINZ. Thank you, Mr. Krist.

Gentlemen, let me thank all of you. Your testimony was extremely valuable, both detailed and incisive. Thank you very much. [Whereupon, at 12:10 p.m., the hearing was adjourned.]

[Responses to written questions of Senator Heinz follow:]

RESPONSE TO WRITTEN QUESTIONS OF SENATOR HEINZ FROM WILLIAM MORRIS, JR.

Question

Mr. Morris, how do you assess Eximbank's assistance for smaller exporters, particularly its new program for ETCs?

Answer

- o Eximbank has made considerable progress in helping smaller exporters. I personally feel, however, that the problem and needs are so great that even greater efforts are required.
- o Eximbank's accomplishments include its new willingness to make medium-term loans, not only medium-term guarantees as formerly. This helps smaller exporters meet foreign credit competition with the same fixed-rate financing and interest rate support as Eximbank provides for larger exporters.
- o Further, I applaud the retargetting of Eximbank's discount loan program exclusively on smaller exporters.
- o On the other hand, I have ambivalent feelings about Eximbank's new Export Trading Company program. Under the ETC legislation, Eximbank must now finance export inventories. But how successful the new program will be remains to be seen in light of the following:
 - Eximbank's fee appears quite high. For example, it is charging 1 percent for 180-day credit-- which works out to a 2 percent annual surcharge. Since smaller exporters already pay the highest interest rates, I wonder if the fee structure works against the attractiveness of the program.
 - Second, applicants are required to demonstrate that they cannot obtain financing from SBA's Export Revolving Line of Credit program. This requires paperwork and time that seems unnecessary. Although Eximbank does not want to compete against SBA, my own view is that competition is healthy. In the SBA case, only three ERLCs have been approved in about a year of operations.

Eximbank's 2 percent front-end fee affect
can exporters?

An example of a policy that was well-
intentioned but inadvertently damaged our ability to
imposing this fee initially was to
continue, when its borrowing costs rose

When, the front-end fee severely
U.S. exporters to conclude an
government charges a corresponding
stand out like a sore thumb. An
being penalized for giving an order to

That foreign governments charge
may be equivalent to Eximbank's. But
include their fees in their price; they
customer, not offend him. Eximbank
exporters.

One reason for imposing the fee is under-
standing is structured is counterpro-
Eximbank could structure its fee
to make it so apparent.

current lower borrowing costs may

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EXPORT-IMPORT BANK AMENDMENTS OF 1983

THURSDAY, MARCH 24, 1983

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL FI-
NANCE AND MONETARY POLICY,

Washington, D. C.

The subcommittee met at 9:30 a.m. in room 538 of the Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Gorton, Lautenberg, and Proxmire.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. The Subcommittee on International Finance and Monetary Policy will come to order.

Today we start the second of 2 days of hearings on the renewal of the authorization of the Export-Import Bank. On Tuesday we heard from the Chairman of the Bank, William Draper, and from the administration. Today we will hear from private sector witnesses in two panels.

On Tuesday it was confirmed that by the Bank's own calculations, \$900 million of export business was lost to more competitive foreign export finance support for the 12 months beginning in June 1981. Others have put the figure much higher. These are lost contracts—in some cases lost markets—which may never be regained. These losses represent some 30,000 jobs in high tech industries which were not generated in a time of record high unemployment.

We simply cannot afford to continue to squander American export markets due to uncompetitive export financing, and we cannot afford to continue losing business to the unfair credit practices of our trade competitors. That is why Senators Garn, Jackson, Kassebaum, and I introduced S. 869, the Export-Import Bank Amendments Act of 1983, which makes a number of needed changes in the Bank's charter. The most important of those changes is the clarification of the mandate for the Bank to be fully competitive in all its programs. Clearly this is what Congress wants and this is what the Bank should provide.

The Bank fails to fulfill its very reason for existence when it provides loans at uncompetitive rates because of fears of temporary losses in its own financial condition. But that is just what it did last year. We were told on Tuesday by Mr. Draper that the Bank seeks to become self-sustaining. Self-sustaining for what? It does us no good to even have an Eximbank if, in seeking to self-sustaining, that Bank fails to fulfill the mission for which it was created.

It is, frankly, incredible to me that the Bank's own directors would wonder what the primary mission of the Eximbank is, but that is apparently what they do believe. The Congress must make its view absolutely clear that the Bank was created to provide competitive financing for U.S. exporters, and that this is its primary mandate. My bill does just that.

Before I turn to our panel of witnesses, let me say that I'm deeply indebted to Senator Slade Gorton for being here. I'm going to have to turn over the chair of this portion of the hearing to him. That's because at about 11 o'clock last night we were informed that the Social Security Conference on the bill—it was S. 1, the House bill 100—started at 9 o'clock. It's underway right now. I was over there and I have to go back there. Senator Gorton has agreed to chair the hearing until about 10:20 or so; and so at this point I want to thank the witnesses who are here—Mr. McMillan, Mr. Ricks, Mr. Coates, Mr. Samuel, Mr. Folley, and Mr. Faulkner—and at this point turn the hearing over to Senator Gorton for any opening statement he has and also to chair the hearing until I or some other benevolent surrogate should return.

Let me just say again to Senator Gorton I'm deeply appreciative, on about 5 minutes notice he was able to absolutely fracture whatever schedule he had this morning and has turned up and I'm deeply grateful to him. Senator Gorton, as a symbol of gratitude, I give you the gavel. Thank you.

Senator GORTON. Thank you, Senator Heinz, but I did intend to come to this hearing in any event, so I will be happy to take your place for the next 40 minutes. Because my time is limited and because we wish to hear from all of you, we will go through the statements of each of you in order before there are any questions and then if there is time for me or my successor to ask questions we will do so. If not, I suspect we will want to submit a significant number of questions to you in writing.

To the extent that you can summarize your written testimony, that summary will be greatly appreciated. I can assure each of you that your written testimony will appear in the record in full as if it had been read.

With that, we'll start with Mr. McMillan, the first of two witnesses representing the Coalition for Employment Through Exports.

STATEMENT OF JAMES McMILLAN, PRESIDENT, McDONNELL DOUGLAS FINANCE CORP., REPRESENTING COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. McMILLAN. Just looking through my remarks I have, "Good morning, gentlemen." I think I will change that to good morning, sir.

My name is Jim McMillan. I am president of McDonnell Douglas Finance Corp., a wholly-owned subsidiary of McDonnell Douglas Corp. I am also a corporate vice president of the parent company.

I'm here speaking for the aerospace industry and the Coalition for Employment Through Exports. As I indicated, we do appreciate the opportunity to appear before this subcommittee to present our recommendations and suggestions for strengthening and improving

the role and function of the Eximbank. We're here because we are concerned that any curtailment in Eximbank activities would be counterproductive. We've all recognized that achievement of Government spending reductions is exceedingly difficult. Each affected agency or program resists any attempt to limit its role or scope of activity. Nonetheless, the test that should prevail in evaluating any agency such as the Eximbank is the weighing of the benefits to be achieved against the costs to be incurred to achieve those benefits.

I am not here to argue that the Eximbank does not involve some cost or some element of subsidy to its overseas customers, although I'm willing to discuss that or to answer any questions relating to it. That's really not the primary point. The plain and basic truth is that the Eximbank is an essential and needed factor in today's international competition; without it, American exporters are at a distinct and substantial disadvantage.

FACTS ABOUT EXIMBANK

It is from this perspective, and having spent around 25 years dealing with the Eximbank, that I'd like to bring certain facts about the Bank to the attention of the committee. The Eximbank, in my mind, unfortunately, is not a very well understood institution. There really is no comfortable place for it in our basic doctrines of free and fair trade here in the United States. In my mind, it is really a defense mechanism—something we wish we did not need—operating in an area vital to our national economic life. Such an institution is likely to be underrated or badly regarded. In some instances the Bank has suffered this.

I fully recognize that some professional economists have argued that, on the basis of pure market economic theory, the Eximbank is not needed and serves mainly, at taxpayers' expense, to benefit either foreign buyers or the affected U.S. suppliers. The economists who make these arguments are sincere. However, their arguments are based on theoretical economic assumptions and they are not concerned with the real facts of life.

A strong Eximbank is one of the most, in fact, probably the only effective U.S. lever to pressure foreign governments to moderate their aggressive concessionary financing practices. It increasingly appears to me that the only way to put the financing of exports on a sound economic basis is to permit the Eximbank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by subsidy-supported financing practices.

The Eximbank is vitally needed for certain export products, mainly the big ticket capital goods items, such as aircraft, power-generating equipment, nuclear powerplants, locomotives, etc., where, because of foreign governmental financing practices, export financing has increasingly become a key determinant of export competitiveness. The financing terms of foreign governments in aid of their exporters cannot be competitively matched by private financing facilities, nor by the exporters themselves—hence there is a need for the Eximbank.

These are also the product areas where world markets are necessary to maintain the economies of scale on which U.S. technological leadership depends. It is therefore not surprising that the

number of prime contractors is relatively small. But at the same time these prime contractors are only the conduit for thousands of small businesses go to the export market.

U.S. MERCHANDISE TRADE DEFICIT

The U.S. merchandise trade deficit for 1982 was a substantial \$42.7 billion. If, through Eximbank efforts, we could have increased aerospace export sales in 1982 by just \$1 billion, then U.S. industry would have enjoyed additional employment of 136,000 man-years over the 1982 to 1990 time period.

The basic and fundamental consideration in these discussions is that the concessionary financing practices by foreign credit agencies in competition with U.S. products have caused the basic Eximbank policies also to be a key determinant in the success or failure of our sales efforts. Only the Eximbank can provide the competitive financing programs needed. Private financing facilities, as I indicated, cannot fill the void, and the manufacturers simply do not have the financial capability to meet the offers of foreign governments.

The Bank has been effective, although it could have been much more so. In fiscal year 1982, the Bank made \$3.6 billion in loans to support over \$5 billion in exports and \$5.8 billion in guarantees and insurance to support an additional \$7 billion in exports, for a total in supported exports of over \$12 billion.

Over the years 1973 through 1981, the Bank's aggregate \$83.9 billion in loan authorizations supported an aggregate of about \$120 billion in export value.

There is a bill pending before the Senate and there are several important areas which we feel should be addressed. I'll go through them relatively briefly.

One of our top priorities in the reauthorization process is to insure that the primary focus of the Bank's activity be directed toward the effective expansion of U.S. exports. We therefore endorse the current charter amendment which would emphasize that the Bank's principal—underlining principal—purpose is in export growth by providing financing fully competitive with that offered by other countries.

There has also been considerable debate as to whether Eximbank should be removed from the Unified Budget. The present bill does not contain that provision. This is an exceedingly complicated area and time will not permit a detailed discussion here, but clearly in my mind it is misleading for the Bank authorization to be included with other line items which are purely expenditure programs. We recommend that an in-depth study be undertaken by the General Accounting Office which might possibly indicate some other method of handling it, perhaps the creation of a "Credit Budget," which could include Eximbank and other loan programs. It is an area that obviously deserves additional study.

SECTION 1912

Perhaps one of the most important aspects of this discussion here is Section 1912 which is intended to prevent foreign government-supported export credits from being extended within the U.S.

market. However, this section has not proven to be effective and as currently drafted, in my mind, will never be. In fact, as far as civil aircraft is concerned, the present provision is fatally flawed. The existing statute refers to remedial action in the case where "non-competitive financing" is present. We are concerned that there is no adequate standard of measurement for "noncompetitive financing" in the bill, and even as to the amendments which are currently being offered before the Senate. The present law refers to "existing standstills, minutes, or practices to which the U.S. and other major exporting countries have agreed." We feel that none of these criteria is adequately applicable in the case of civil aircraft. In fact, the most directly applicable such agreement is the "Commonline," and that document is silent on the issue of home markets of the four signatory nations. In other words, it means the French, the British, the Germans, could have a concessionary financing offer into a U.S. carrier in competition with McDonnell Douglas or Boeing Airplane and Section 1912 is completely ineffective because that offer would not violate any of the existing "minutes, standstills, or agreements."

For this reason, we recommend additional language identifying financing terms for which the provisions of Section 1912 would apply. We feel that reference to some current money market standard would perhaps be a basis for identification of "noncompetitive financing." Foreign official export credits which, for example, undercut that reference rate could trigger the provision of Section 1912. Other changes in the language are also essential. We endorse the change and using the word "significant" in lieu of "determining" for characterizing the needed effect of the foreign offer. And the recent Bombardier case on the railroad cars is clearly an example of the Act being ineffective.

We also believe that fixed, staggered terms for Board members would provide for greater continuity and, in turn, would make the Bank more responsive to its legislative mandate than to the differing policies of changing Administrations. I've been dealing with the Bank through the Administrations of Mr. Kern, Mr. Casey, Mr. Dubrey, Mr. Moore and now Mr. Draper. The Bank changes with the Administration and, in fact, with every change in the Administration as the Board changes it takes 6 months to a year before the new members of the Board really begin to understand the function of the Bank. Some continuity of the Board is essential and the present legislation takes a step in that direction.

One additional point, the U.S. negotiating policy regarding government-supported export credits has been to reduce, to the maximum extent possible, their market distorting influences. We have had partial success in the civil aircraft sector through the Commonline Agreement. But in this case, the U.S. Government has unilaterally added a 2% application fee which represents an arbitrary and self-imposed competitive handicap for U.S. suppliers and should therefore be continued. That is not addressed in the bill. It would be an administrative determination of the Bank.

ENDORSE BANK'S ADVISORY COMMITTEE

I have only a few more words. We endorse the re-establishment of the Bank's Advisory Committee for we feel it would assure continuous communication between the private sector and the Bank.

The world trading systems are obviously becoming more interdependent each year and calls for protection exist in every major trading country, including the United States. In my mind, the United States has the responsibility for continued leadership and support for maximum world trade freedom. It is in all our best interests. In the existing environment, the Eximbank, in my opinion, is a needed, effective and essential tool for the United States to try to reach that objective.

Thank you very much for your time and attention.

[Complete statement follows:]

STATEMENT BY JAMES T. McMILLAN, PRESIDENT, McDONNELL DOUGLAS FINANCE CORP.

Good morning Gentlemen. My name is Jim McMillan, I am President of McDonnell Douglas Finance Corporation, a wholly-owned subsidiary of McDonnell Douglas Corporation. I am also a corporate vice president of the parent company.

Speaking for the aerospace industry and the Coalition for Employment Through Exports, I appreciate the opportunity to appear before this Committee to present our recommendations and suggestions for strengthening and improving the role and function of the Eximbank. An effective Eximbank will, I believe, lead to needed improvements in our balance-of-payments position and, at the same time, will benefit the U.S. economy as a whole through reductions in unemployment and the consequent benefits of increased economic activity.

McDonnell Douglas has for many years strongly advocated that the Federal Government's spending programs be brought into better balance with Government revenues and we therefore support the President and his Administration in their determination to reduce Federal Government expenditures to the extent feasible.

However, we are concerned that any curtailment in Eximbank activity may be counterproductive. We all recognize that achievement of government-spending reductions is exceedingly difficult. Each affected agency or program resists any attempt to limit its role or scope of activity. Nonetheless, the test that should prevail in evaluating any agency such as the Eximbank is the weighing of the benefits to be achieved against the costs to be incurred to achieve these benefits.

I am not here to argue that the Eximbank does not involve some cost or some element of subsidy to its overseas customers. That is not the primary point. The plain and basic truth is that the Eximbank is an essential and needed factor in today's international competition; without it, American exporters are at a distinct and substantial disadvantage.

It is from this perspective that I would like to bring certain facts about Eximbank to the attention of the Committee. The Eximbank, unfortunately, is not a well understood institution. There really is no comfortable place for it in our basic doctrines of free/fair trade. In my mind, it is a defense mechanism—something we wish we did not need—operating in an area vital to our national economic life. Such an institution is likely to be underrated or badly regarded.

I fully recognize that some professional economists have argued that, on the basis of pure market economic theory, the Eximbank is not needed and serves mainly—at taxpayers' expense—to benefit either foreign buyers or the affected U.S. suppliers. The economists who make these arguments are surely sincere. However, their arguments are based on theoretical economic assumptions and they are not concerned with the real facts of life.

A strong EXIM is one of the most, in fact, probably the only effective U.S. lever to pressure foreign government to moderate their aggressive concessionary financing practices. The recent U.S. efforts to negotiate improvements in the Commonline Agreement are an attempt to achieve discipline in this area. It increasingly appears that the only way to put the financing of exports on a sound economic basis is to permit Eximbank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by subsidy-supported financing practices.

The Eximbank is vitally needed for certain export products, mainly the "big ticket" capital goods items, such as aircraft, power-generating equipment, locomotives, etc., where, because of foreign governmental financing practices, export financing has increasingly become a key determinant of export competitiveness. The financing terms of foreign governments in aid of their exporters cannot be competitively matched by private financing facilities—hence the need for Eximbank.

These are also the product areas where world markets are necessary to maintain the economies of scale on which U.S. technological leadership depends. It is therefore not surprising that the number of prime contractors is relatively small. But these prime contractors are only the conduit for thousands of firms who go to market through them.

Let me illustrate the real role that can be performed by Eximbank. The U.S. merchandise trade deficit for 1982 was substantial \$42.7 billion. If, through Eximbank efforts, we could have increased aerospace export sales in 1982 by just \$1 billion, then U.S. industry would have enjoyed additional employment of 148,000 man-years over the 1982 to 1990 time period, including the effect of follow-on sales in the aerospace and other industries which encompass virtually every state in the Union. The real GNP would have enjoyed an additional \$6.5 billion and the Federal deficit would have been reduced by \$3.7 billion. Admittedly, these benefits accrue over several years' time; however, the ripple effect of these—such as employment, GNP and budget deficit improvements are obviously highly beneficial.

Because of the concessionary financing practices by foreign credit agencies in competition with U.S. products, the basic policies of Eximbank become a key determinant of the success or failure of our sales efforts. Only Eximbank can provide the competitive financing programs needed—private financing facilities as I indicated cannot fill the void.

The Bank had effective, although it could have been much more so. In Fiscal Year 1982, the Bank made \$3.516 billion in loans to support \$5.068 billion in exports and \$5.832 billion in guarantees and insurance to support an additional \$7.082 billion in exports, for a total in supported exports of over \$12.150 billion. The Bank's 1982 operations helped maintain 580,000 U.S. jobs.

Over the years 1973 through 1981, the Bank's aggregate \$83.930 billion in loan authorizations supported an aggregate \$119.271 billion in export value.

There are several important areas which we feel should be addressed in the legislation extending Eximbank's authorization. I would like to touch on a few of them.

One of our top priorities in the reauthorization process is to insure that the primary focus of the Bank's activity be directed toward the effective expansion of U.S. exports. We therefore endorse a charter amendment which would emphasize that the Bank's principal purpose is in export growth by providing financing fully competitive with that offered by other countries.

There has been considerable debate as to whether EXIM should be removed from the Unified Budget. This is a complicated area and time will not permit a detailed discussion. Clearly, it is misleading for the Bank's authorization to be included with other line items which are purely expenditure programs. We recommend that an in-depth study be undertaken by the General Accounting Office which might possibly indicate the desirability of the creation of a "Credit Budget," which could include Eximbank and other loan programs. It is an area that requires additional study.

Section 1912 is intended to prevent foreign government-supported export credits from being extended within the U.S. market. However, this section has not proven to be effective and, in fact, is fatally flawed in the case of Civil Aircraft. The existing statute refers to remedial action in the case where "noncompetitive financing" is present. We are concerned that there is no adequate standard of measurement for "noncompetitive financing." The present law refers to "existing standstills, minutes, or practices to which the U.S. and other major exporting countries have agreed." We feel that none of these criteria is adequately applicable in the case of civil aircraft. In fact, the most directly applicable such agreement is the "Commonline," and that document is silent on the issue of home markets of the four signatory nations.

For this reason, we recommend additional language identifying financing terms for which the provisions of Section 1912 would apply. We feel that reference to some current money market standard would perhaps be a basis for identification of "non-competitive financing." Foreign official export credits which, for example, undercut that reference rate could trigger the provision of Section 1912. Other changes in language are also essential, such as substituting the word significant in lieu of determining for characterizing the needed effect of the foreign offer.

We also urge that additional lending authority be extended to Eximbank to make Section 1912 a more credible warning to foreign governments considering below-

market export financing in the U.S. market. Otherwise, a debilitating diversion of resources badly needed for export promotion may occur.

We also believe that fixed, staggered terms for Board members would provide for greater continuity and, in turn, would make the Bank more responsive to its legislative mandate than to the differing policies of changing Administrations.

We believe that the authorization level for the aggregate amount of loans, guarantees and insurance which the Bank can have outstanding in any year should be increased from \$40 billion to \$50 billion.

We concur that the direct loan authorizations in the draft legislation, i.e., \$7 billion for 1984 and \$7.5 billion for 1985. However, recognizing that foreign competition must be met head-on, we also strongly recommend that authorization be given for guarantee support in the amount of \$10 billion for Fiscal Year 1984.

The USG negotiation policy regarding government-supported export credits has been to reduce, to the maximum extent possible, their market distorting influence. Partial success in the civil aircraft sector has been achieved through the Common-line Agreement reached with our major European competitors, wherein direct loan term and minimum interest rate are established. The unilateral addition of the 2 percent Application Fee by the U.S. represents an arbitrary and self-imposed competitive handicap for U.S. suppliers and should, therefore, be discontinued.

An ever-increasing area of concern is the practice of foreign government-supported credit agencies to combine foreign assistance grants with their direct loans. One foreign government has even gone so far as to establish a special facility for this purpose. Therefore, we recommend Congressional and Administration support for the following actions:

Take note of the mixed credit practices abroad and the challenge they present to U.S. exports.

Request the Department of State and the U.S. Trade Representative to raise the "mixed credit" problem in bilateral discussions with the French, British, and Japanese, and any other countries which follow the practice, with the goal of ending such practices, and to report to the House and Senate Banking Committees periodically on the results of such discussions.

Direct Eximbank to do a thorough study of the extent of the mixed credit practice and its impact on U.S. exports, and to make available the results to the Senate and House Banking Committees within six months of the dates of enactment of the reauthorization.

Direct Eximbank to provide competitive financing to meet the challenge of a foreign "mixed credit" offer when it arises.

We endorse the re-establishment of the Bank's Advisory Committee for we feel it would assure continuous communication between the private sector and the Bank.

The world trading systems are becoming more interdependent each year and calls for protection exist in every major trading country. The U.S. has the responsibility for continued leadership and support for maximum world trade liberalization. In the existing environment, the Eximbank is a needed, effective and essential tool for the United States to try to reach that objective.

Thank you for your time and attention.

[Appendix 1]

COALITION FOR EMPLOYMENT THROUGH EXPORTS

Membership as of February 25, 1983

A. Business organizations

1. Aerospace Industries Association of America, Inc.
2. Air Products & Chemicals, Inc.
3. Allis-Chalmers.
4. ARMCO, INC.
5. Bank of America.
6. Bechtel Group, Inc.
7. BF Goodrich.
8. The Boeing Company.
9. Caterpillar Tractor Company.
10. CBI Industries, Inc.
11. Chase Manhattan Bank.
12. Chemtex, Inc.
13. Cincinnati Milacron, Inc.

14. Combustion Engineering, Inc.
15. Deere & Company.
16. Dresser Industries, Inc.
17. Empire Machinery Company.
18. ENSERCH Corporation.
19. First Wisconsin National Bank of Milwaukee.
20. Fluor Corporation.
21. Frederick Electronics.
22. GATX Corporation.
23. GTE Corporation.
24. General Electric Company.
25. Goulds Pumps, Inc.
26. Gulf & Western.
27. Hughes Aircraft Company.
28. ITT Corporation.
29. McDonnell Douglas Corporation.
30. Manufacturers Hanover Trust Company.
31. Motorola Inc.
32. National Machine Tool Builders' Association.
33. PACCAR, Inc.
34. Pennsylvania Engineering Corporation.
35. Rockwell International.
36. Rohr Industries, Inc.
37. The Signal Companies, Inc.
38. Stone & Webster Engineering Corporation.
39. Transamerica Delaval Inc.
40. United Technologies Corporation.
41. Wean United.
42. Westinghouse Electric Corporation.
43. Wheelabrator-Frye.

B. Labor organizations

1. American Federation of Government Employees.
2. Building and Construction Trades Department, AFL-CIO.
3. Coalition of Labor Union Women.
4. Communications Workers of America.
5. Council of Engineers and Scientists Organizations.
6. International Brotherhood of Electrical Workers.
7. International Ladies' Garment Workers Union.
8. International Union of Electrical, Radio and Machine Workers.
9. International Union of Operating Engineers.
10. The Seafarers International Union of North America, AFL-CIO.
11. United Association of Plumbers and Pipefitters.
12. United Automobile, Aerospace and Agricultural Implement Workers of America.
13. United Brotherhood of Carpenters and Joiners of America.
14. United Steelworkers of America.

C. Governors

1. Governor Bob Graham of Florida. Chairman of the National Governors' Association's Committee on International Trade and Foreign Relations.
2. Governor John Spellman of Washington. Vice Chairman of the Committee on International Trade and Foreign Relations.
3. Governor Bruce Babbitt of Arizona.
4. Governor William A. O'Neill of Connecticut.
5. Governor George R. Ariyoshi of Hawaii.
6. Governor John V. Evans of Idaho.
7. Governor James R. Thompson of Illinois.
8. Governor John Carlin of Kansas.
9. Governor Harry Hughes of Maryland.
10. Governor James B. Hunt, Jr. of North Carolina.
11. Governor Victor G. Atiyeh of Oregon.
12. Governor Dick Thornburgh of Pennsylvania.
13. Governor J. Joseph Garrahy of Rhode Island.
14. Governor Richard Snelling of Vermont.

Senator GORTON. Thank you, Mr. McMillan, We'll now go to Mr. Ricks.

**STATEMENT OF LEONARD RICKS, NATIONAL CHAIRMAN,
COUNCIL OF ENGINEERS AND SCIENTISTS ORGANIZATION**

[Complete statement follows:]

**STATEMENT OF LEONARD RICKS, NATIONAL CHAIRMAN, COUNCIL OF ENGINEERS AND
SCIENTISTS ORGANIZATIONS**

Mr. Chairman and members of the subcommittee, I am Leonard Ricks, National Chairman of the Council of Engineers and Scientists Organizations. It is an honor to represent both the Council and the the Coalition for Employment Through Exports in these important hearings.

The Council of Engineers and Scientists Organizations represents 45,000 employees working in 41 states. Most of these employees are engineers and technicians employed within the most dynamic sectors of this country's manufacturing base. Many of them work in industries which are internationally competitive, which depend upon overseas markets for efficient production and steady growth, and which produce technologically advanced products. These industries, which provide many attractive jobs and contribute to a strong U.S. industrial base, depend upon Eximbank support for competitive access to export markets. (Data which profile these Eximbank supported industries are found in Appendices A-D)

In the past few years our competitive access to the world marketplace has been compromised. Because of Eximbank's failure to counter concessional foreign financing, U.S. industry has lost foreign sales and, consequently, Americans have lost jobs (Appendices E,F,G).

S. 869 has a very important bearing on our country's international competitiveness and on jobs in the core of our work force which have so unexpectedly become less secure. By specifying that the Eximbank is to be fully competitive in all of its programs, the bill under consideration by this committee accomplishes the following things:

Congress gives a clear direction to the Eximbank relieving it of mandate conflict and establishing a principle mission around which the Bank must organize its activities.

Congress is sending a message to our trading partners that it will no longer tolerate predatory financing practices.

Congress is also assuring our exporters that, when faced with foreign government subsidies, they will have the institutional support of the Eximbank.

The Council and CEE strongly support S. 869 for it squarely addresses the major problems posed by a competitive and increasingly distorted world marketplace. The bill's proposals—to tighten Section 1912, to meet the problem posed by the increasing use of mixed credits, to reestablish the Advisory Council, and to give more coherence to Eximbank policy and administration—all address important problems faced by the community of Exim users.

These proposals are compatible with our own recommendations and will receive our active support. Underlying these specific proposals, however, is the need to clarify the mandate of the bank. Spelling out the competitive charge of the Eximbank reinforces these proposals, but there is something more fundamental at stake here. A noncompetitive bank means lost sales and lost sales mean lost jobs. To opt for a less than competitive Eximbank is to say we can do without its job generating activity. That, of course, is a decision that congress will have to make.

**APPENDIX A.—EXIMBANK IS SUPPORTING SECTORS AND INDUSTRIES WHICH POSSESS A CLEAR
COMPARATIVE ADVANTAGE**

[U.S. revealed comparative advantage 1978-80]

Product	1978	1979	1980
Steam boilers and aux plant.....	1.10	1.41	1.54
Steam engines, turbines.....	.81	1.20	1.51
Internal combustion engines.....	2.16	2.12	1.98
Engines and motors, NES.....	2.53	2.61	2.84
Gas Turbines.....	3.45	3.99	4.79
Rotating electric plant.....	1.57	1.39	1.47

APPENDIX A.—EXIMBANK IS SUPPORTING SECTORS AND INDUSTRIES WHICH POSSESS A CLEAR COMPARATIVE ADVANTAGE—Continued

[U.S. revealed comparative advantage 1978-80]

Product	1978	1979	1980
Other power generating machinery	1.54	1.65	1.95
Nuclear reactors and parts	1.68	1.80	2.45
Agricultural machinery (exc. tractors)	1.91	1.88	1.94
Non-road tractors	2.36	2.26	2.25
Civil engineering equipment, etc.	2.82	2.68	2.87
Textile leather machinery	.61	.64	.60
Paper mill machinery	.95	.93	.97
Printing machinery	1.60	1.58	1.53
Food machinery	1.07	1.06	1.27
Other special industry machinery	1.08	1.12	1.22
Machine tools for special industries	.92	.95	1.02
Other mineral working machinery	1.07	1.05	1.17
Special industry machinery, NES	1.11	1.16	1.27
Metalworking machine tools	.91	.88	.90
Metal cutting machine tools	.68	.58	.49
Metal forming machine tools	.79	.82	.93
Metalworking machinery, NES	1.32	1.19	1.36
Rolling mills	.79	.87	1.45
Heating, cooling equipment	1.71	1.70	1.65
Industrial furnaces	1.21	1.05	1.23
Pumps	1.62	1.63	1.49
Mechanical handling equipment	1.73	1.72	1.76
Non-electrical machinery, NES	1.46	1.51	1.47
Data processing equipment	3.28	3.07	2.88
Telecommunications equipment	1.41	1.30	1.22
Line Telephone Equipment	1.35	1.24	1.29
Electric Power Machinery, NES	.86	.76	.76
Transformers	.77	.69	.71
Switchgear	1.08	1.13	1.11
Electrical distributing equipment	1.18	1.13	1.11
Electronic medical equipment	2.31	2.41	2.41
Transistors, valves, etc.	1.59	1.51	1.38
Electric machinery, NES	1.29	1.27	1.29
Lorries, special motor vehicles	1.08	.98	.77
Railway vehicles	1.56	1.30	1.31
Aircraft, etc.	4.97	4.23	4.06
Ships, boats	.16	.23	.42

Source: GATT, "International Trade 1979/1980," U.N., "International Trade Statistics."

APPENDIX B.—THE EXIMBANK SUPPORT OF CAPITAL GOODS EXPORT IS APPROPRIATE SINCE CAPITAL GOODS HAVE STEADILY ACCOUNTED FOR APPROXIMATELY 60 PERCENT OF U.S. MANUFACTURED GOODS EXPORTS (THE LENDING PROGRAM IS NOT A SUBSIDY FOR PROPPING UP AILING INDUSTRIES)

[U.S. manufactures exports: Sectoral shares (By sector: Percent of total)]

SITC and sector	1978	1979	1980	1981
5—Chemicals	13.3	14.8	14.4	13.7
6—Basic manufactures	13.2	13.9	15.4	13.4
7—Machinery and equipment	62.4	60.4	58.8	62.0
71-75—Nonelectrical	28.9	28.4	29.1	30.8
76-77—Electrical	10.0	9.9	9.7	9.9
78-79—Transport	23.5	22.1	20.0	21.3
8—Miscellaneous manufactures	10.8	10.8	11.3	10.3

Source: U.S. Commerce Department, "Business America."

APPENDIX C.—EXPORT MARKETS ARE CRITICAL TO EXIM-SUPPORTED INDUSTRIES IN ACHIEVING THE ECONOMIES OF SCALE WHICH MAKE THEM EFFICIENT AND PRODUCTIVE—THIS FACT IS CLEAR WHEN WE SEE THE DEGREE OF EXPORT DEPENDENCE OF THESE INDUSTRIES

[Export dependence (Exports/shipments)]

	1978	1979	1980	1981 ¹
Product:				
Nonelectric machinery:				
Construction machinery.....	.283	.299	.386	.433
Mining machinery.....	.202	.242	.274	.287
Oil field machinery.....	.462	.479	.498	.490
Materials handling.....	.076	.054	.072	.065
Metal cutting machine tools.....	.136	.118	.119	.124
Metal forming machine tools.....	.240	.194	.214	.236
Tools, molds, precision equipment.....	.024	.025	.031	.042
Food processing.....	.450	.483	.559	.562
Textile and apparel.....	.253	.311	.311	.315
Printing trades machinery.....	.274	.300	.314	.331
Furnaces and ovens.....	.245	.257	.291	.260
Turbine generator sets.....	.140	.159	.300	.322
Electrical and electronic equipment:				
Transformers.....	.070	.076	.079	.083
Telecommunications equipment.....	.048	.050	.054	.060
Communications equipment other than telecommunications.....	.099	.096	.092	.092
Electronic components.....	.174	.182	.195	.200
Transportation equipment:				
Motor vehicles.....	.029	.034	.041	.035
Aircraft.....	.431	.371	.370	.357
Aircraft-engines and parts.....	.186	.176	.213	.225
Shipbuilding and repairs.....	.024	.029		
Average: All manufacturers.....	.070			

¹ Provisional.

Source: "Predicasts Basebook," 1982.

APPENDIX D.—U.S. EXPORT STRENGTH LIES IN TECHNOLOGICALLY ADVANCED INDUSTRIES. THE CAPITAL EQUIPMENT EXPORTED WITH THE SUPPORT OF EXIMBANK FINANCING IS AMONG THE MOST TECHNOLOGICALLY ADVANCED WITHIN U.S. INDUSTRY. DATA ON THE INTENSITY OF R&D EXPENDITURES BY MANUFACTURING SECTOR MAKES THIS CLEAR

[Research and development intensity (R&D expenditures as a percentage of sales)]

	1978 ¹	1979 ¹	1980 ²	1981 ²
Nonelectrical machinery.....	3.25	3.08	3.39	3.34
Electrical machinery.....	6.83	7.05	7.18	7.70
Aerospace.....	20.46	18.02	16.22	15.70
All manufacturing.....	2.06	2.13	2.27	2.34

¹ Actual.

² Planned.

Source: McGraw-Hill, "Survey of Business Plans for R&D Expenditures."

[Research and development intensity (R&D expenditures as percentage of capital spendings)]

	1978 ¹	1979 ¹	1980 ²	1981 ²
Nonelectrical machinery.....	61.84	43.77	49.59	48.45
Electrical machinery.....	118.51	103.89	92.36	105.80
Aerospace.....	238.51	157.31	117.94	153.67
All manufacturing.....	40.46	37.37	35.31	35.93

¹ Actual.

² Planned.

Source: McGraw-Hill, "Survey of Business Plans for R&D Expenditures."

APPENDIX E.—THERE HAVE BEEN DRAMATIC INCREASES IN UNEMPLOYMENT IN THOSE INDUSTRIES SUPPORTED BY THE EXIMBANK

[Job losses by selected products July 1981–November 1982]

Product	Employment seven/1981	Employment eleven/1982	Change in employment	Percentage change
Engines and turbines.....	134,000	103,700	-30,300	-22.6
Farm and garden machinery.....	154,800	117,400	-37,400	-24.2
Construction and related machinery (including mining).....	403,400	277,100	-126,300	-31.3
Metal working machinery.....	363,000	292,300	-70,700	-19.5
Special industrial machinery.....	199,200	126,100	-73,100	-36.7
General industrial machinery.....	320,400	255,800	-64,600	-20.2
Electrical distributing equipment.....	120,100	105,500	-14,600	-12.2
Electrical industries apparatus.....	243,700	194,200	-49,500	-20.3
Communications equipment.....	551,600	556,300	-4,700	-0.85
Aircraft and parts (commercial and military).....	647,300	600,700	-46,600	-7.2
Ship and boat building.....	228,500	195,200	-33,300	-14.6
Railroad equipment.....	53,000	32,400	-20,600	-38.9
Miscellaneous transportation equipment.....	38,000	40,300	+2,300	+6.1
Total change in employment.....		-569,400		

APPENDIX F.—EXIMBANK SUPPORTED INDUSTRIES THAT ARE CURRENTLY WITNESSING A DECLINE IN PRODUCTIVE CAPACITY

[Capacity utilization rates for selected industry groups, second quarter 1981—third quarter 1982]

Year and quarter	Durable manufactur- ing	Aircraft	Machinery (excluding electrical)
1981—2d quarter.....	77	75	90
1981—3d quarter.....	74	75	89
1981—4th quarter.....	70	73	88
1982—1st quarter.....	70	71	85
1982—2d quarter.....	68	70	82
1982—3d quarter.....	65	69	79

APPENDIX G.—WHILE AMERICAN BUSINESS CAN COMPETE FAVORABLY WITH FOREIGN BUSINESS, AMERICAN BUSINESS CANNOT COMPETE WITH FOREIGN GOVERNMENTS WHICH SUBSIDIZE NEARLY A THIRD OF ALL THEIR EXPORTS

[Percentage of total exports supported by official financing]

	1979	1980	1981	1982
Canada.....	6.3	6.4		
France.....	32.0	34.0	32.0	
Germany.....	8.4	7.5	9.2	
Italy.....	11.1	7.1	6.0	
Japan.....	38.3	43.0	55.0	
United Kingdom.....	38.7	30.5	30.8	
United States.....	5.2	5.7	8.1	5.3

UNCOMPETITIVE EXIMBANK FINANCING RESULTED IN MORE THAN \$1 BILLION IN LOST EXPORT SALES IN 1981

(Estimated lost sales due to uncompetitive Eximbank financing, 1981)

	Amount
U.S. Department of Commerce	\$1 + billion.
U.S. Trade Representative	\$1 + billion.
Machine and Allied Products Institute	\$386.7 million (orders diverted to foreign affiliates).
Coalition for Employment through Exports	\$1.1 billion.

Senator GORTON. Thank you very much, Mr. Ricks.

Now representing the National Foreign Trade Council, Mr. Coates.

STATEMENT OF WILLIAM A. COATES, EXECUTIVE VICE PRESIDENT, WESTINGHOUSE ELECTRIC CORP., REPRESENTING THE NATIONAL FOREIGN TRADE COUNCIL, ACCOMPANIED BY PATRICIA BARRETT, DIRECTOR OF TRADE POLICY, NATIONAL FOREIGN TRADE COUNCIL

Mr. COATES. Mr. Chairman, my name is William A. Coates, executive vice president international of Westinghouse Electric Corp. I appreciate the opportunity which you have provided me to testify on the reauthorization of the Export-Import Bank Act of 1945. I am here representing the National Foreign Trade Council, the oldest and largest private, nonprofit organization dedicated exclusively to the promotion of U.S. international trade and investment. Our recommendations have been taken after extensive consideration and deliberation by members of the Council which are primary users of the Bank and its programs. With me is Patricia Barrett, Director of Trade Policy for the Council.

Senator Heinz, the National Foreign Trade Council and Westinghouse are appreciate of the interest you have shown in strengthening the Eximbank and encouraging exports.

We have a more complete prepared statement which we would like to have printed in the subcommittee's hearing record.

Senator GORTON. It will be printed.

Mr. COATES. Thank you.

[Complete statement follows:]

TESTIMONY BY WILLIAM A. COATES, EXECUTIVE VICE PRESIDENT-INTERNATIONAL WESTINGHOUSE ELECTRIC CORP., ON BEHALF OF NATIONAL FOREIGN TRADE COUNCIL

Mr. Chairman, members of the Committee, my name is William A. Coates, Executive Vice President—International of Westinghouse Electric Corporation. I appreciate the opportunity which you have provided me to testify on the reauthorization of the Export-Import Bank Act of 1945. I am here representing the National Foreign Trade Council, the oldest and largest private, non-profit organization dedicated exclusively to the promotion of U.S. international trade and investment. Our recommendations have been taken after extensive consideration and deliberation by members of the Council which are primary users of the Bank and its programs.

Chairman Heinz, at the outset, permit me to applaud your tireless personal efforts to encourage exports by American business. Your leadership in this area and your recognition of the vital role played by Eximbank in encouraging American exports are greatly appreciated by the American business community. The National Foreign Trade Council, and my own corporation, Westinghouse, are appreciative of the interest you have shown in strengthening Eximbank, as evidenced by the bill you have introduced.

The Council strongly supports the extension of the statutory authority of the Act creating Eximbank; would like to see the Act clarified and strengthened to make Eximbank more competitive with its foreign counterparts, and is pleased to support the general thrust of your bill.

Mr. Chairman, given your involvement in trade issues, I hardly need remind you of the value and importance of Eximbank. But because there remains so little understanding in Congress and the public at large about the purpose and operation of the Bank, I would like to precede my discussion of specific issues raised by the reauthorization and by your bill, with a brief description of the importance of the Bank.

The Eximbank has traditionally been a cost-effective institution for the U.S. economy. Given the international trading environment which confronts our nation, the Eximbank is one of America's wisest investments.

The world economy today is more interdependent than at any time in recorded history; we can no longer isolate our domestic economy from activities occurring abroad. Fifty-three percent of the decline in the U.S. real gross national product from the third quarter of 1981 to the fourth quarter of 1982 was attributable to a drop in our net exports of goods and services.

We no longer dominate world markets with our goods. The very success of our post-World War II Marshall Plan helped rebuild the war-torn nations of Europe and Asia into strong countries, fully capable of competing with products manufactured in the United States.

In addition, a host of nations which are becoming industrialized—Singapore, Korea, Hong Kong, Taiwan, Brazil, Indonesia—are increasingly able to compete with products made elsewhere in the world, including our country.

Competition for world markets has been particularly intense in the last ten years as world oil prices soared ten-fold. Every industrialized nation has attempted to boost its exports in order to help pay for its energy bill. Country after country has developed subsidies and incentives for its exports, often with direct appropriations, rather than incurring what they perceive to be the higher costs of unemployment and idle plant capacity.

The United States has lagged behind in its recognition of the importance of exports. We have historically relied on our own vast internal market, and looked inward rather than outward to other markets. This, plus increasing competition from other nations, has dramatically reduced the United States' share of world trade; in 1948 it was 21.8 percent; in 1981 the U.S. share dropped to 13 percent.

Export competition will be even stiffer in the years ahead, with more competitors in fields formerly dominated by American industry. It will be further intensified by the reduction in export markets caused by austerity programs imposed by the International Monetary Fund on many developing nations with severe debt problems.

The National Foreign Trade Council devoutly hopes for the day when there will be no official export subsidies by any nation. But that day is a long way from arriving. We engage in trade competition with two strikes against our country's exporters if we allow others to compete according to different rules than we follow. There simply is no free market in many important sectors. International trade markets are characterized by pervasive government intervention to restrict imports and promote exports. Our trading competitors have used many techniques to stimulate exports, including direct and indirect subsidies and tax relief; but they are increasingly relying on export financing supported by government programs, often with direct appropriations.

Mr. Chairman and members of this Committee, American business can effectively compete with foreign companies for world markets on commercial terms. But we cannot compete with foreign governments which provide officially-supported financing terms for their exports if we must resort to the commercial market to finance our sales.

The OECD Arrangement on Guidelines for Officially Supported Export Credits is an officially-sanctioned below-market credit arrangement, which has gradually evolved into a system that is contrary to our nation's free market-oriented philosophy. We must continue to negotiate to reduce the subsidy element in national export credit programs permitted by the OECD Arrangement. The Council understands the treasury Department is negotiating to achieve an automatic variable rate structure based upon an agreed spread over comparable long-term government bond rates for each country involved; elimination of all subsidies on financing to OECD "Category I" or "relatively rich" countries; incorporation of newly industrialized nations into the Arrangement; inclusion of aircraft, nuclear power plants, ships and earth satellite stations under the Arrangement, with terms appropriate to each; and restrictions on mixed credit.

The Foreign Trade Council is in accord with the Treasury Department's objectives in these negotiations.

But the Council also recognizes that these goals will not be attained overnight, and that our nation must maintain its competitiveness in export credit financing to effectively compete in world markets.

Other countries have recognized far better than we that in the fiercely competitive international export market, where many nations produce the same types of products, financing terms are critical in determining who makes the sale. A 1930 study by the Comptroller General of the United States found that Japan and the United Kingdom officially supported 35 percent of their exports with export incentives, France 29 percent, Germany 12 percent. Before the administration's budget cuts to Eximbank, the comparable percentage of exports supported by the Eximbank was only 6 percent.

The U.S. Government Accounting Office noted in the 1980 study that "foreign buyers can save millions of dollars in financing costs if they purchase foreign export rather than the products of U.S. firms. For example, based . . . on a nine-year, \$34 million loan, a buyer could save as much as \$5 million by buying products from other countries"—and even more on larger transactions.

As this Committee considers the reauthorization of Eximbank and the Heinz bill, I respectfully suggest the following facts about Eximbank be considered:

First, the Bank has traditionally been a cost-effective, money-making institution for the Federal government, which has never required any appropriated tax dollars. Since it was established by Executive Order in 1934 and chartered by Congress in 1945, it has doubled its initial capitalization of \$1 billion, accumulated a reserve of over \$2 billion, and paid \$1.05 billion back to the Treasury. It generally makes more money from fees for its programs and repayments of its outstanding loans than the cost of its borrowing through the Federal Financing Bank. Its losses in the past two years have been due to high interest rates, which have adversely affected commercial banks as well. It is important to consider these recent losses in the context of its prior record—that through 1982, the Eximbank has written off only \$8 million of its \$55 billion in loans as worthless. Future losses should be minimized as interest rates and the world recession continue to moderate.

An illustration of Eximbank's cost-effectiveness is provided by a recent study by Wharton Econometrics Forecasting Associates prepared for the Budd Corporation and Westinghouse Electric Corporation. Wharton found that in one typical project submitted for Eximbank financing, an Argentine subway system, the U.S. government would get back at least nine times more in increased tax receipts and reduced Federal expenditures (such as for unemployment compensation) than the cost of its loan.

Second, Eximbank is a job-creating institution in one of the fastest growing sectors of American industry—the export sector. Exports improve our productivity as we compete with other nations for markets; provide expanded markets for our goods keep jobs at home which would otherwise move off-shore; and create new jobs. One in every seven manufacturing jobs in the U.S. is involved in the production of goods sold abroad, according to the U.S. Census Bureau. In addition, exports represent some 9 percent of our gross national product.

Every \$1 billion in exports creates 25,000 new jobs, according to the conservative estimates of the Commerce Department. Eximbank's most recent Annual Report shows that every one dollar authorized for the Bank's loan, guarantee, and insurance programs generates \$1.45 in export sales. Additional exports mean additional jobs.

Eximbank does not provide foreign aid or concessional aid. Its funds never leave this country. It is a commercial institution which means additional business activity and more jobs for America.

Third, Eximbank is essential to permit American business both small and large, to compete with foreign officially supported export credits; it does not simply finance sales which would otherwise occur. High interest rates, international uncertainty, and traditional reluctance by private lending institutions to extend long-term fixed rate financing for exports, have combined to make access to competitive credit by U.S. exporters difficult without Eximbank assistance.

A 1980 Treasury Department study concluded that "exports supported by direct credits are calculated to have a very high probability of additionality, somewhat greater than 70 percent". A recent Eximbank analysis of 140 exporters demonstrated that "sales were lost because other governments offer better financing than Eximbank". The General Accounting Office, Congress' watchdog agency, as already mentioned, did its own thorough study in 1980, receiving 86 responses to a detailed

questionnaire. It detailed some \$1 billion in sales lost to foreign competitors primarily because of uncompetitive financing.

A number of Bank users recently compiled numerous examples of sales lost by large and small U.S. companies in significant part due to lack of competitive export financing. For instance, the Boeing Company lost a \$226 million contract with Singapore for the sale of its airplanes to the French who provided an interest rate some 3 percent lower than Exim could have provided. Westinghouse Electric Corporation lost a bid for the Korea Electric Company's turbine generators to the French due to non-competitive financing. The example of Frederick Electronics is typical of the problems small exporters have without adequate Eximbank support. This Maryland-based firm lost a \$2.3 million sale to the Philippines on telex switching equipment to a Swiss company which had government-backed export assistance covering a higher percentage of the purchaser's loans at a rate fully 4.5 percentage points below that which Frederick could provide.

CHARTER AMENDMENT ON COMPETITIVENESS

The single most important issue for the National Foreign Trade Council in the reauthorization of the Export-Import Bank is the need to clarify the Eximbank charter to emphasize the priority which should be attached to its mandate to provide competitive financing.

The General Accounting Office has repeatedly noted in its studies that Eximbank labors under conflicting objectives. It is under a statutory mandate (under Sections 2(a)(1) and 2(b)(1)(A)) to foster the expansion of competitive exports by providing competitive financing for U.S. exports. On the other hand, while it is not under a statutory requirement to be self-sustaining, this has been its practice.

This conflict has become more pronounced in the past few years. On several occasions, the Chairman and President of the Eximbank has testified before the Congress that he believed the Bank was under an equal mandate to fulfill two requirements: to be self-sustaining on the one hand, and to provide competitive financing on the other. In this connection, he has cited Section 2(b)(1)(B) of the Act which states that the Bank shall take "into consideration the average cost of money" in making its loans.

The assumption that the Bank was under a co-equal requirement to be self-sustaining has affected the way in which the Bank has done business over the past several years. Thus, for example, when new rate floors were negotiated for OECD Arrangement, our government raised Eximbank's rates above the new minimums and imposed an up-front 2 percent fee, thereby disadvantaging the competitiveness of U.S. exports.

We are sympathetic to the problems of the Administration and of Chairman Draper during this high interest rate period. The Bank has recently received claims regarding guaranteed loans to Latin America, primarily because of Mexico's problems, and we appreciate Mr. Draper's willingness for Eximbank to "bear the responsibility for leadership in these troubled markets."

We also applaud recent Eximbank actions to reduce interest rates on its loans to the same rate as the OECD minimum interest rates, thus rendering U.S. exports more competitive. But in an increasingly competitive world, we cannot leave room for doubt about Eximbank's primary mission.

Mr. Chairman, the U.S. merchandise trade deficit for 1982 was a record \$42.69 billion, despite falling oil imports. There was a record \$21.5 billion drop in U.S. exports of manufactured goods and agricultural products. Yet, our major foreign competitors are relentlessly more aggressive than the U.S. in providing favorable financing terms. The following are examples:

- They provide direct operating subsidies for their Eximbank equivalent;

- They frequently cover a larger percentage of the value of exports—85 percent versus 65 percent;

- They finance both foreign content costs incorporated into their products and host country costs;

- They extend mixed credits to their buyers, combining foreign aid grants or concessional losses with subsidized commercial loans;

- They provide insurance against escalation and currency fluctuation;

- They maintain their interest rates at the bare minimum permitted by the OECD Arrangement.

To clarify Eximbank's conflicting concerns it is critical to specify that its mandate to be competitive takes precedence over the requirement to consider the average cost of money. Given the competitive environment in world trade characterized by government industry partnerships and subsidized financing, it is impractical for the

Bank to operate without a primary competitive directive. The Council recognizes that while honoring a mandate to be competitive, Eximbank must also then strive to operate profitably as far as possible.

The Council believes the approach taken by Section 101(a) and 101(b) of the Heinz bill is an appropriate solution to the dilemma. It makes clear that the Bank should be "fully competitive in all its programs" and that, while the average cost of money must be a factor in the Bank's determination of interest rates, it should "not impair the Bank's primary function of expanding United States exports through fully competitive financing".

The Council has some alternate language which attempts to accomplish the same basic goal, set out below.¹

EXTENSION OF THE ACT

The Council recommends that the Charter be extended for five years, through September 30, 1988, by amendment to Section 8 of the Act. We have no objection to Section 104 of the Heinz bill, which provides for a six-year extension. The objective is to provide certainty of continuity for the export community, which both provide.

The Council takes this position with the belief that the Eximbank has a significant role to play in furthering the nation's economic and trade policy goals to effectively meet the competitive challenges of the Eighties. We are confident that the Bank's operations over the next five or six years will be increasingly more effective in supporting U.S. exporters in competition with companies in other countries that receive subsidized export credit support from their own governments.

MIXED CREDITS

One of the most pernicious forms of foreign government support in the financing of exports is the use of "mixed credits" by many of America's industrialized competitors—France, the United Kingdom, Canada, and Japan. Through "mixed credits", nations provide an attractive "blended financing package by combining already subsidized officially supported export credits with foreign aid funds at highly concessional terms. This practice may continue to grow as OCED rates more closely approximate market rates, and as countries seek to gain whatever competitive advantage they can against this backdrop.

There is no prohibition in the existing Eximbank charter against providing such mixed credits, but it has not been a practice of the Bank to extend such credits. Nor is there anything which prevents Eximbank and the Agency for International Development (AID) from cooperating to provide a mixed credit package to compete with foreign mixed credits. But AID is not under the Bank's jurisdiction, there is no tradition of cooperation between the two agencies, and AID does not view support of U.S. exports as a part of its mission.

If Eximbank is to seriously consider its Congressional mandate to support U.S. exports "at rates and on terms and conditions which are competitive with exports of other countries", then the United States must have the administrative capability to meet foreign mixed credit offers where necessary to achieve a U.S. export sale.

Mr. Chairman, the Council recognizes the significant attention which has been given to the mixed credit issue, in Title II of the Heinz bill. We support the bill's negotiating mandate for the President to restrict and ultimately phase out mixed credits. We also note with approval your bill's call for greater cooperation between AID and Eximbank to meet this challenge. The Council prefers to see AID contribute its administrative expertise and Eximbank its resources for this important purpose.

DIRECTORS' TERM OF OFFICE

Under Section 3(c) of the Export-Import Bank Act, the five-person Board of Directors of Eximbank, headed by a Chairman, is appointed by the President (with the advice and consent of the Senate) and serves purely at his pleasure. Each new President traditionally appoints his new team. This has led to less independence and continuity of the Bank Board than the Council believes to be practical. In addition,

¹"Sec. 2(b)(1)(B). It is further the policy of the United States that loans made by the Bank shall bear interest at rates determined by the Board of Directors of the Bank, taking into consideration, foremost, the Bank's mandate to support U.S. exports at rates and on terms and conditions which are competitive with exports of other countries and secondly, the average cost of money to the Bank, that the Bank in the exercise of its functions . . .".

Presidents often delay for months after their inauguration in naming a Chairman, leaving a leadership vacuum at the Bank.

Since 1969, Eximbank has had five Chairmen and a continuous turn-over in Directors. As a result, the Bank has frequently changed its policies and programs, thus creating a perception both here and abroad that Eximbank policies are inconsistent. Although we respect the professionalism of the Bank's Directors, the absence of Eximbank management and policy continuity has engendered a lack of certainty and reliability in the U.S. export community and impeded the private sector from developing export strategies.

To remedy this administrative shortcoming, we suggest that Section 3(c) of the Eximbank Act be amended so that the four Directors would serve for a set period of four years, commencing one each year. This would provide the Board with the necessary independence to set long-term objectives for the Bank and to maintain these goals through changing Administrations. The Council notes with approval that Section 103 of the Heinz bill would take a similar step. The Council would, however, suggest that the Chairman's term continue to be at the pleasure of the President of the United States.

The Council would also suggest that Section 3(c) of the Act be amended to assure prompt nomination by the President of a Chairman early in his term,² so that the Bank would have direction and leadership without the gap of an extensive period of time.

RECONSTITUTE THE ADVISORY COMMITTEE

Congress intended in enacting Section 3(d) of the Eximbank Act to provide for a broad-based Advisory Committee of nine members to present "production, commerce, finance, agriculture, and labor".

Unfortunately, the prior Administration let the Committee lapse into extinction on February 25, 1979, when it decided not to extend its life under the Federal Advisory Committee Act,³ under which advisory committees in general terminate after a two-year period unless specifically renewed by the President.

The National Foreign Trade Council believes this action was unfortunate and that Congress should reassert its original intention by reconstituting the Advisory Committee. It would serve as a necessary link between the Bank and those in the private sector with an interest in the Bank. The Advisory Board can help provide the Bank Directors and the Administration with the perspective of the export community, can advise the Bank of actual conditions in the marketplace, and can help interpret and communicate the Bank's policies to the business and labor communities.

The Council believes that when the Committee is reconstituted it should be given a meaningful role and its membership broadened to assure that all sectors concerned with the Bank's role in promoting exports be represented. The Council supports the provisions of Section 102 of the Heinz bill, which accomplish these purposes.

EXIMBANK'S PLACE IN THE FEDERAL BUDGET

The Council feels that one of the factors which has hindered the development of a competitive American export credit system is the accounting treatment of Eximbank's programs in the Federal budget. The current portrayal of Eximbank in the unified Federal budget creates the misleading and confusing impression that the Bank receives appropriated tax dollars in the way that Federal expenditure programs do. Instead, Eximbank authorizations are a statement of Eximbank's maximum capacity to lend money borrowed through the Federal Financing Bank in a given year.

A related problem is that Eximbank loan authorization figures must compete for room in Function 150 of the budget—the foreign assistance section—with foreign aid expenditure programs and multilateral lending institutions leading many to believe incorrectly that Eximbank programs are a form of concessional foreign aid to needy foreign governments.

In fact, Eximbank operates along the lines of a commercial lending institution; its loans are repaid with interest, and it receives fees for its guarantees and insurance.

² "The President of the United States shall submit for the advice and consent of the Senate has nomination for the President of the Export-Import Bank of the United States within sixty days of the President's inauguration into office."

³ PL 92-463, 5 U.S.C. App. I § 14.

We agree with you, Mr. Chairman, that the General Accounting Office should study whether to remove the Bank from the Federal outlays budget in order to correct the misperception resulting from including the Bank's lending programs with other Federal programs requiring actual expenditures. We also join with you in urging establishment of a unified credit budget to include loan programs like Eximbank. This would assure Congressional oversight but would group similar programs together.

The National Foreign Trade Council has recommended in another forum⁴ that the ultimate solution to the budget treatment of Eximbank is to integrate all on-and-off-budget credit and guarantee programs into a Federal credit budget. Such a budget would feature both the gross amount of new loans and guarantees authorized in any given fiscal year, and the net volume, which would include loan repayments and expirations; the present value cost of any interest subsidies; that present value cost of expected defaults; the present value cost of any special tax favors; and a quantitative and qualitative illustration of the costs and benefits to the American public of all credit programs. We are confident Eximbank will compare favorably in any such analysis. We are pleased with your willingness, Mr. Chairman, to take a leadership role in this area.

CONGRESSIONAL NOTIFICATION

The Council supports Section 106 of the Heinz bill which raises from \$100 million to \$250 million the amount of a loan guarantee which the Bank must report to Congress and for which the Bank must wait 25 days of continuous session of Congress before finally approving.

This will expedite Eximbank procedures and remove an administrative load from both the Bank and the Congress.

NONCOMMERCIAL ISSUES

There are several places in the Eximbank Act where the Bank's policies and procedures are linked to attainment of certain U.S. foreign and domestic policy goals, in such areas as human rights, restricted exports to South Africa, environmental protection, nuclear non-proliferation, and international terrorism.

While the Council does not suggest any legislative change, it is our belief that these objectives are best pursued through the Export Administration Act and the export licensing procedures within the Departments of Commerce and State, rather than through Eximbank involvement.

Mr. Chairman, and members of the Committee, permit me to again express my gratitude on behalf of myself, my company, Westinghouse Electric Corporation, and the National Foreign Trade Council, for the opportunity to express the Council's views on the important issues concerning the reauthorization of a critically important agency, the Export-Import Bank of the United States.

STATUTORY AUTHORITY OF ACT

Mr. COATES. The Council strongly supports the extension of the statutory authority of the act creating Eximbank; would like to see the act clarified and strengthened to make Eximbank more competitive with its foreign counterparts; and is pleased to support the general thrust of your bill.

Mr. Chairman and members of this committee, American business can effectively compete in price, quality, and service for world markets with foreign businesses, but we cannot compete with foreign governments who provide officially supported financing terms for their export, if we must use the commercial market to finance our sales.

We understand our Treasury Department is advocating an automatic variable interest rate structure under the OECD arrangement on an agreed spread from comparable long-term Government bond rates with each country involved, elimination of all subsidies on fi-

⁴ February 11, 1982, before the Senate Budget Committee Task Force on Federal Credit.

nancing to relatively rich countries, incorporation of newly industrialized nations into the arrangement, inclusion of aircraft, nuclearpower plants, ships and earth satellite stations under the arrangement with terms appropriate to each; and restrictions on mixed credits.

The Council approves Treasury's objective. But we also recognize that these goals will not be attained overnight, and that our Nation must maintain its competitiveness on credit terms to effectively compete in world markets.

As this committee reviews the reauthorization of Eximbank and the Heinz bill, we suggest the following be considered.

First, Eximbank has been a cost effective, moneymaking institution for the Federal Government. It has made more money from fees and loan repayments than the cost of its borrowing through the Federal Financing Bank. Its losses in the past 2 years have been due solely to high interest rates, and these losses should end as interest rates continue to moderate.

Its cost effectiveness is graphically demonstrated by a recent study by Wharton Econometrics Forecasting Associates prepared for the Budd Corp., and Westinghouse Electric Corp. Wharton found that in one typical project submitted for Eximbank financing, an Argentine subway system, the U.S. Government would get back at least nine times more in increased tax receipts and reduced Federal expenditures for unemployment compensation, than the cost of its loan.

Second, Eximbank is a job-creating institution in one of the fastest growing sectors of American industry—the export sector. Exports represent some 9 percent of our gross national product.

Eximbank does not provide foreign aid or concessional aid. The fund it lends never leaves this country.

Third, Eximbank is essential to permit American business, both small and large, to compete with foreign officially supported export credits; it does not simply finance sales which would otherwise occur.

The single most important issue in the reauthorization of the Export-Import Bank Act, in the opinion of the National Foreign Trade Council, is the need to clarify the Eximbank charter to emphasize the priority of its mandate to provide competitive financing.

On several occasions, the Chairman and President of the Eximbank has testified to Congress that he believed the Bank was as equally required to be self-sustaining as to provide competitive financing. He has cited section 2(b)(1)(B) of the act which states that the Bank shall take "into consideration the average cost of money" in making its loans. The Council believes this interpretation was not the intent of Congress. In its 1981 report, the General Accounting Office agreed, stating that "GAO agrees that Eximbank is not statutorily required to be self-sustaining."

But the belief that the Bank was under a coequal duty to be self-sustaining has affected the way in which the Bank has done business over the past several years. For example, when new floors were negotiated with the OECD arrangement, our Government raised Eximbank's rates above the new minimums and imposed an upfront 2-percent fee.

We are sympathetic to the problems the administration and President Draper have had during this high interest rate period. The Bank was providing credit at rates below its borrowing cost. It has recently received claims for large amounts of guaranteed loans to Latin America, primarily because of Mexico's problems. We appreciate Chairman Draper's willingness for Eximbank "to bear the responsibility for leadership in these troubled markets."

We also applaud the recent actions by Eximbank to make U.S. exports more competitive by reducing its interest rates to the OECD minimums.

But in an increasingly competitive world, we urge that Congress not leave room for doubt about Eximbank's primary mission.

The Council believes the approach taken by section 101(a) and 101(B) of the Heinz bill is an appropriate solution to resolving the problem.

The Council recommends that Eximbank charter be extended for 5 years, through September 30, 1988. We would also be happy with section 104 of the Heinz bill, which provides for a 6-year extension.

The important element is to provide certainty of continuity for the export community.

MIXED CREDITS

One of the most pernicious forms of foreign government support in financing of exports, is the use of mixed credits by some of America's industrialized competitors—France, the United Kingdom, Canada, and Japan. This practice may continue to grow as OECD rates more closely approximate market rates, and as countries seek to gain a competitive advantage.

We support the Heinz bill's negotiating mandate for the President to try to restrict, and ultimately phase out, mixed credits. We also note with approval Senator Heinz bill's call for greater cooperation between AID and Eximbank to meet this challenge.

Under section 3(c) of the Export-Import Bank Act, a five-person Board of Directors of Eximbank, headed by a Chairman, is appointed by the President (with the advice and consent of the Senate) and serves purely at his pleasure. Each new President traditionally appoints his new team, which has led to less independence and continuity, and more politicization of the Bank Board than the Council believes to be healthy.

We approve section 103 of the Heinz bill, but would suggest that the Chairman's term continue to be at the pleasure of the President of the United States.

The Council would also suggest that section 3(c) of the act be amended, to assure prompt nomination by the President of the Chairman early in his term, so that the Bank would have direction and leadership without the gap of an extensive period of time.

Congress intended in enacting section 3(b) of the Export-Import Bank Act to provide for a broad-based advisory committee of nine members to represent "production, commerce, finance, agriculture, and labor."

Unfortunately, the prior administration let the committee lapse into extinction on February 25, 1979, when it decided not to extend its life under the Federal Advisory Committee Act. This law pro-

vides that the advisory committees in general terminate after a 2-year period unless specifically renewed by the President.

The National Foreign Trade Council believes this action was unfortunate and that Congress should reinsert its original intention by reconstituting the advisory committee.

The Council feels that one of the factors which has retarded the development of the competitive American credit system is the inclusion of Eximbank's program in the Federal budget. The annual debates over budget funds for Eximbank create the misleading and confusing impression that the Bank receives appropriated tax dollars like other expenditure programs, rather than merely a capacity to lend money borrowed through the Federal Financing Bank, and that its annual loan activity ceilings are an appropriation of funds in the year they are authorized.

We agree with you, Mr. Chairman, that the General Accounting Office should study whether to remove the Bank from the Federal outlays budget, in order to correct the misperception resulting from including the Bank's lending programs with other Federal programs requiring actual expenditures. We also join with you in urging establishment of a unified credit budget to include loan programs like Eximbank. This would assure congressional oversight but would group similar programs together.

The Council supports section 106 of the Heinz bill which raises from \$100 million to \$250 million the amount of the loan guarantee which the Bank must report to Congress, and wait 25 days of continuous session of Congress before finally approving.

This will expedite Eximbank procedures and remove an administrative load from both the Bank and Congress.

HUMAN RIGHTS

There are several places in the Eximbank Act where the Bank's actions are linked to attainment of certain U.S. foreign and domestic policy goals, in such areas as human rights, restricted exports to South Africa, environmental protection, nuclear nonproliferation, and international terrorism.

While the Council does not suggest any legislative change, it is our belief that these objectives are best pursued through other legislation rather than through Eximbank involvement.

Mr. Chairman and members of the committee, permit me to again express my gratitude on behalf of myself, my company Westinghouse Electric Corp. and the National Foreign Trade Council for the opportunity to express the Council's views on the important issues concerning the reauthorization of a critically important agency, the Export-Import Bank of the United States.

Senator GORTON. Mr. Coates, I would like to thank you for that testimony.

We will now move on to the labor-industry coalition with Mr. Samuel.

STATEMENT OF HOWARD SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO

Mr. SAMUEL. Thank you, Mr. Chairman. I am Howard Samuel, president of the Industrial Union Department of the AFL-CIO. I

am here today to testify on behalf of the Labor-Industry Coalition for International Trade, which is a coalition of eight major corporations and their names are listed in our testimony, and a similar number of major international unions, which believe that international trade is a major factor in our economy and that it should be looked at irrespective of ideology and outlived slogans of free trade and protectionism and so forth. We certainly support the adoption of Government policies and industry practices which encourage open and fair competition for foreign products in the U.S. market as well as for American-made products in foreign markets.

Because we are a coalition, it is appropriate that there are two of us who are going to present this testimony and I'm accompanied by Mr. Clyde Folley, the senior vice president of the Ingersoll Rand Co., and I am going to ask Mr. Folley to open our presentation and when he finishes I would like to add a few words of my own.

STATEMENT OF CLYDE FOLLEY, SENIOR VICE PRESIDENT, INGERSOLL RAND; REPRESENTING THE LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Mr. FOLLEY. Thank you, Mr. Samuel. Thank you, Mr. Chairman. At the outset, let me apologize for the fact that certain of my remarks will seem to be repetitious. As a matter of fact, I had the peculiar feeling when Senator Heinz was making his introductory remarks that he was reading from my preparation.

[Complete statement follows:]

STATEMENT OF CLYDE FOLLEY, SENIOR VICE-PRESIDENT, INGERSOLL-RAND CO., AND HOWARD D. SAMUEL, PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO, ON BEHALF OF THE LABOR-INDUSTRY COALITION FOR INTERNATIONAL TRADE

Mr. Chairman:

(Mr. Samuel) We are here today on behalf of the Labor-Industry Coalition for International Trade ("LICIT") to strongly support extending the charter of the Export-Import Bank of the United States and to present our views on its reauthorizing legislation.

LICIT is a voluntary association of industrial unions and corporations representing a broad spectrum of American industry and is not an official arm of any labor or business group. The coalition's charter states that LICIT "seeks to represent the common interest of American workers and American business in promoting increased, balanced, and equitable trade among all nations of the world. Without reference to outdated slogans of 'free trade' and 'protectionism', LICIT will support adoption of government policies and industry practices which encourage open, fair competition for foreign products in the United States market as well as for American made products in foreign markets."

THE NEED FOR A FINANCIALLY COMPETITIVE EXPORT-IMPORT BANK

(Mr. Folley) A major concern of our coalition has been the economic injury caused to American companies and workers because of subsidized government export credits of other countries. In the recent past, this international export credit competition for jobs and markets was very intense. American companies and workers were the losers in much of that competition because a number of influential officials in this Administration decided that it wasn't in our national interest for the Bank to provide competitive financing. A more reasoned perspective now seems to be prevailing in the Administration about the importance of a financially competitive Eximbank. We hope that recent statements of intent are actually reflected in policy and operating decisions of the Bank. This turnaround in the Administration's support for Eximbank was due in large part to efforts by yourself and your staff, Mr. Chairman, as well as by our coalition and the many other organizations represented in this room.

Let us be clear about why LICIT supports a financially competitive Export-Import Bank. Ideally, exports from different countries would compete on the basis of quality and price, not on the basis of anything as artificial as differences in the willingness of national treasuries to provide subsidized official export finance. Officially-supported export credits should be a neutral element in international trade.

However, in reality, subsidized export credits by foreign governments are often important determinants of trade in capital equipment goods. Therefore, LICIT's position is that the Export-Import Bank must have adequate lending and guarantee authority to ensure that no U.S. exports or jobs are lost solely because of subsidized export credits provided by foreign governments. This is important not only for domestic-based companies, but also for American companies with overseas manufacturing operations. Because of international competition utilizing officially subsidized export credits, these American firms are often faced with the situation of sourcing in another country or losing the sale altogether. By not having export credit programs that are competitive with the programs of other countries, the United States unwittingly encourages U.S. companies to produce overseas.

A financially competitive Eximbank is also necessary to support U.S. negotiators in the OECD who, for over eight years now, have been struggling to limit, and now to eliminate, the competitive subsidy element in official export credits. We support that objective and we applaud the progress our negotiators have made so far. We would like to see all official export credit agencies providing primarily guarantees and insurance where, because of product or country characteristics, some government role is required. However, until we reach that stage of international consensus, we must maintain a competitive export credit agency to defend our interests, our workers and firms.

RECOMMENDATIONS CONCERNING CHANGES IN THE EXIMBANK CHARTER

Mr. Chairman, let me begin by stating that LICIT supports extending and strengthening Eximbank's charter. Our hope is that the Bank's operations in future years will be more effective than they have been recently in supporting U.S. exporters in competition with companies in other countries that receive subsidized export credit support from their own governments.

There have been many issues raised during the past year with respect to possible statutory changes in the legislative charter of the Export-Import Bank. LICIT believes that there are two basic and very important issues that should be addressed in the reauthorizing legislation based on the history of the Bank's operations and the nature of international export credit competition over the past five years. Both of these issues are directed at improving the implementation of the fundamental purpose of the Bank—to defend U.S. firms and workers against the subsidized export credit financing practices of foreign governments, whether in export markets or in our domestic market.

The first issue is to change the Bank's charter in order to strengthen and make unambiguous the current Congressional directive to the Export-Import Bank to offer export financing "at rates and on terms and other conditions which are competitive" with the official export credit programs of our major competitors. The problem we want to address is the supposed conflict the current Directors of the Bank saw in 1980-1982 to provide "competitive" financing on the one hand and to maintain the self-sustaining nature of the Bank's programs on the other. It was precisely during those years of extraordinarily high interest rates, when subsidized export credit competition was so intense, that our country needed a competitive Export-Import Bank. The primary purpose of the Bank should be to defend American exports and jobs against unfairly subsidized export credits of foreign governments. It will do this by providing, when necessary, financing that is fully competitive with that provided by official export credit agencies in other countries.

What we suggest is that the charter be amended so that it clearly states that the primary and overriding purpose of the Bank is to provide export financing that is fully competitive with financing our competitors provide. This legislative change should also be expanded upon by report language accompanying the reauthorization Act to define very precisely what Congress means by fully competitive—in terms of interest rate, term, coverage of the transaction, etc. We are not advocating, nor do we expect, that such a change in the legislation will lead to yearly losses on a continuing basis for Eximbank. However, such a change will ensure that if, in any given year, the Bank must sustain some operating losses to remain competitive that it will do so.

We recommend that Sec. 2 (b)(1)(B) of the charter be amended as follows:

"Sec. 2(b)(1)(B) It is further the policy of the United States that loans made by the Bank shall bear interest at rates determined by the board of Directors of the Bank to be necessary to implement the Bank's mandate to support United States exports at rates and on terms and conditions which are competitive with exports of other countries, and, to the extent not inconsistent with this objective, take into consideration the average cost of money to the Bank [as well as the Bank's mandate to support United States exports at rates and on terms and conditions which are competitive with exports of other countries];"

(Mr. Samuel) The second, and related issue, is the critical need to implement an effective remedy for subsidized financing of export sales into the U.S. market. Recent experience has proven that the OECD Arrangement and U.S. countervailing duty law are not adequate deterrents to prevent the economic injury caused by the subsidized export financing practices of foreign governments to win sales away from U.S. manufacturers in our own market. For one-shot sales of "big ticket" capital equipment—whether heavy electrical machinery, telecommunications systems, commercial aircraft or large orders of self-propelled rail cars—U.S. producers are left effectively without any defense against a foreign competitor backed up by government-provided export financing at whatever terms are needed to win the sale. Even if the domestic producer were able ultimately to prevail in a countervailing duty petition or in a section 301 unfair trade practice complaint adjudicated through the GATT mechanism, the damage will already be done. The contract is lost, and with it a major package of production and jobs for the U.S. economy because the goods will still be produced overseas. And the loss, Mr. Chairman, is not to market competition, but to the unequal, unfair competition of market financing for U.S. producers versus government-subsidized financing for the foreign competition.

There has been considerable discussion of ways of rectifying this problem. A proposal has been made to provide sanctions directly against certain public entities which accept bids financed by subsidized foreign export credits. Another proposal that has been suggested is to make mandatory the Export-Import Bank's present option, when and if authorized by the Treasury Secretary, to provide matching financing for domestic producers when government subsidized financing is provided to foreign bidders.

We are persuaded, however, that there is a more direct and less-costly method for providing preventive remedies for U.S. producers faced with the prospect of overcoming the gap between the market financing available to them and the government subsidized rates often available to their foreign competitors.

We recommend that for all publicly-bid projects, imported merchandise benefiting from foreign government financing, the terms and conditions of which are inconsistent with the OECD Arrangement on Guidelines for Officially Supported Export Credits, be prohibited from entering the United States. A procedure should be established for domestic parties to challenge the proposed subsidized financing of imported merchandise. This challenge would trigger a quick review by the Commerce or Treasury Department to determine whether the financing is, in fact, inconsistent with the terms and conditions of the OECD Arrangement. If the finding was affirmative, the merchandise would not be allowed to be imported. This proposal can be put in U.S. trade law by a provision in the Eximbank renewal legislation amending Section 301 of the Trade Act of 1974.

It might prove useful to also require that bidders for such capital equipment contracts indicate the full range of government support they receive from their governments. This requirement would capture the possibility of shifting the weight of government support from prohibited export credit subsidies to other kinds of assistance that could provide decisive competitive advantages to foreign producers of capital equipment for the U.S. market.

The Chairman, we have no specific comments on other proposals concerning amendments to Eximbank's charter. In closing, we would like to stress the fact that legislative changes in themselves are not sufficient to remedy the trade problem arising out of international competition utilizing officially subsidized export credits. Appropriate legislation must be accompanied by a firm commitment of the United States Government to support American exporters and to provide them with equal competitive opportunities in world markets, including export financing. Absent such a commitment, well-drafted legislation for Eximbank will be inadequate. Thus, we must all continue the public policy debate and the education process concerning the importance of the Export-Import Bank for American jobs and American exports.

Mr. Chairman, that concludes our prepared remarks. We would be happy to answer any questions that you or other members of your Subcommittee may have.

Mr. FOLLEY. Let me now defer to Mr. Samuel.

REMEDY SUBSIDIZED FINANCING EXPORT SALES INTO U.S.

Mr. SAMUEL. The second, and related issue, is the critical need to implement an effective remedy for subsidized financing of export sales into the U.S. market. Recent experience has proven that the OECD arrangement and U.S. countervailing duty laws are not adequate deterrents to prevent the economic injury caused by the subsidized export financing practices of foreign governments to win sales away from U.S. manufacturers in our own market. For one-shot sales of "big ticket" capital equipment—and we're talking about heavy electrical and mechanical machinery, telecommunications systems, commercial aircraft or large orders of self-propelled rail cars—U.S. producers are left effectively without any defense against a foreign competitor backed up by government-provided export financing at whatever terms are needed to win the sale. Even if the domestic producer were able ultimately to prevail in a countervailing duty petition or in a section 301 unfair trade practice complaint adjudicated through the GATT mechanism, the damage will already be done. The contract is lost, and with it a major package of production and jobs for the U.S. economy because the goods will still be produced overseas. The loss, Mr. Chairman, is not due to market competition, but to the unequal, unfair competition of market financing for U.S. producers versus government-subsidized financing for the foreign competition.

There has been considerable discussion of ways of rectifying this problem. I would like to suggest, Mr. Chairman, that probably the most effective and the least costly method for providing preventive remedies—and that is what's needed—preventive remedies is for all publicly bid projects for imported merchandise benefitting from foreign government financing, the terms and conditions of which are inconsistent with the OEC arrangement on guidelines for officially supported export credits, be prohibited from entering the United States. We should be able to establish a procedure for domestic parties to challenge the proposed subsidized financing of imported merchandise. This challenge would trigger a quick review by the Commerce or Treasury Department to determine whether the financing is, in fact, inconsistent with the terms and conditions of the OECD arrangement. If the finding was affirmative, the merchandise would not be allowed to be imported. This proposal can be put in U.S. trade law by a provision in the Eximbank renewal legislation amending section 301 of the trade act of 1974.

I might suggest also, Mr. Chairman, that there's adequate precedent for this kind of arrangement if one looks at the Hart, Scott, Rodino Act providing the same kind of effective warning procedure to allow a Government agency—in the case of Hart-Scott-Rodino the Justice Department—to issue a provisional opinion 30 days before a large merger is consummated. It seems to me that the same kind of procedure can be adopted here.

Mr. Chairman, in closing, we would like to stress the fact that legislative changes in themselves are not sufficient to remedy the trade problems arising out of international competition utilizing officially subsidized export credits. Appropriate legislation must be accompanied by a firm commitment of the U.S. Government to support American exporters and to provide them with equal competi-

tive opportunities in world markets, including export financing. I strongly urge that, without such a commitment, even the best drafted legislation for Eximbank will be inadequate. Thank you, Mr. Chairman.

Senator GORTON. Thank you, Mr. Samuel.

Now representing the American League for Export and Security Assistance, Mr. Faulkner.

STATEMENT OF WILLIAM FAULKNER, VICE PRESIDENT AND ASSISTANT TO CHAIRMAN, AMERICAN HOIST AND DERRICK CO., ST. PAUL, MINN., REPRESENTING THE AMERICAN LEAGUE FOR EXPORT AND SECURITY ASSISTANCE

Mr. FAULKNER. Thank you, Mr. Chairman. My name is William Faulkner, vice president of American Hoist and Derrick Co. of St. Paul, Minn. My colleague, Mr. John Morgan, of the Communications Workers of America, was to join us with testimony this morning. Unfortunately, there is a large gathering of his coworkers in Washington and he is unavailable.

Senator GORTON. We will include his statement in the record.

[Complete statement of Mr. Morgan follows:]

STATEMENT OF JOHN MORGAN, ASSISTANT TO THE EXECUTIVE VICE PRESIDENT, LEGISLATIVE-GOVERNMENTAL AGENCIES, COMMUNICATIONS WORKERS OF AMERICA, AFL-CIO, ON BEHALF OF AMERICAN LEAGUE FOR EXPORTS AND SECURITY ASSISTANCE, INC.

Mr. Chairman, Members of this Committee, while on many issues I would be sitting on the opposite side of the table from industry representatives, we find ourselves taking similar positions on the Export-Import Bank. On behalf of the Communications Workers of America I wish to underscore the words of my industry colleague. Communications Workers of America, also a member of ALESA, has a strong interest in prompting exports.

The United States has been suffering from a very deep recession. Unemployment is at its highest level in half a century and Congress has just passed legislation in an effort to help alleviate this situation.

But a federal jobs program is clearly going to be expensive. Until the economy really turns around and growth is re-established, the federal budget will have to accommodate large outlays for unemployment compensation and for job creation. This situation certainly seems to argue in favor of a dynamic Export-Import Bank. Here is an institution which does not need direct funding from the Treasury. It keeps people employed and contributing taxes to the Treasury. And it protects well-paying jobs in high technology industries and stimulates the creation of new ones.

Unions have themselves tried to respond to these difficult economic times. In recent months, in negotiation after negotiation unions have made major sacrifices in salaries, benefits, and job rules. It has made these sacrifices in order that American industry can get back on its feet. Nothing appears more discouraging to union members who have tried to do their part than to see their efforts offset because U.S. industry cannot compete on the issue of export credit. We can help increase productivity and the quality of our products, so that American goods are competitive in quality and price terms. But labor and industry cannot by themselves compete with the financing provided by other governments.

Another major issue for this Congress will be the question of how to respond to the growing flood of imports in some sectors. While this is not the occasion to discuss legislative initiatives such as reciprocity and local content, I think one factor which will affect the discussions of such legislation will be the health and dynamism of our export industries, and therefore the degree to which new jobs are being generated by them. In that sense there is a relationship between programs which stimulate exports, and those which are designed to give other industries a breathing space from the onslaught of imports.

I should make clear that over the long run most unions are not fond of export subsidy programs. There are many other uses for tax revenues and credit guarantees. But we believe that such programs are a necessary tool to help with the cur-

rent economic situation, and to convince our competitors that it makes sense to reach accord on limiting export subsidy practices.

Just as the unions have not believed that a nation can negotiate arms limitations or disarmament questions with the Soviet Union from a position of weakness, we don't believe we can negotiate fair trade practices and common export policies with the French, the Japanese, or other major trading countries from a position of weakness. We would eventually like to see tighter restraints on official export credit practices. We think the way to get there is to prove that our Export-Import Bank will be able to match the competition, or out match it.

In summary, Mr. Chairman, we believe that an adequately funded, aggressively competitive Export-Import Bank is essential. In the short run the Bank should assure that when American labor and industry produce a quality product at a competitive price, we are not disadvantaged because of the official credit practices of others. In the longer run, we believe a dynamic Bank is the best way to convince other trading countries that it makes more sense to work together to limit export credit subsidy practices, than to compete with each other to see who can use more taxpayers' resources to provide such subsidies.

I would hope, therefore, that your Subcommittee and the Congress would produce legislation to extend the Bank's charter with modifications that stress its competitive nature, and provide authorization levels which will assure that it has the resources to carry out that competitive mandate.

Mr. FAULKNER. I appreciate that and we have submitted our written testimony to the committee staff also, Mr. Chairman.

[Complete statement follows:]

STATEMENT OF WILLIAM B. FAULKNER, VICE PRESIDENT, AMERICAN HOIST AND DERRICK CO., ON BEHALF OF AMERICAN LEAGUE FOR EXPORTS AND SECURITY ASSISTANCE, INC.

Mr. Chairman, Members of the Committee, we greatly appreciate the opportunity to testify before this Subcommittee with respect to the charter of the Export-Import Bank and its level of funding for FY '84. I am William Faulkner, Vice President and Assistant to the Chairman of American Hoist and Derrick Company of St. Paul, Minnesota. I am speaking on behalf of the American League for Exports and Security Assistance, an organization which currently represents 34 corporations and five labor unions. These companies and unions all have in common a commitment to promoting U.S. exports, thereby increasing American jobs and economic activity. My colleague, Mr. John Morgan, of the Communications Workers of America, AFL-CIO, will make a few additional comments following my statement.

Five years ago I also had the privilege of testifying on behalf of adequate funding levels for the Exim Bank before this very Subcommittee. At that time supporters of the Exim Bank were somewhat on the defensive, with at least some members of the Administration having identified the Bank as one place where major cuts were possible as part of an overall budget-trimming effort. I am most pleased to note that there has been a shift in attitude over the past two years. President Reagan's endorsement of "adequate export financing to sell American products overseas" is certainly symbolic of that shift.

I believe that this change in climate comes from a greater awareness of how important exports are to the economic health of our country. This realization has perhaps been brought about by the difficult international economic situation of the last two years. Increasingly, our political leadership and the general public realize that over the past few years the majority of new industrial jobs have been generated by industries which are export oriented. In the case of many of these industries, technology has become so specialized, and the costs of producing it so great, that it becomes economically feasible for companies to engage in such activities only if they are geared to a worldwide market. Thus, the generation of new jobs in industry, and the viability of new high technology industry itself, are both inextricably linked to a dynamic export market.

Ideally, a company's success in the international market should depend on its ability to make a quality product at a competitive price. In the past, American firms were able to do both considerably better than their competition. As industry in other countries has improved its performance, often subsidized by its home governments, differences in quality and price between American products and foreign competition have decreased. As they do, factors, such as exchange rate fluctuations and the availability and terms of credit have become increasingly important factors in who gets the sale. Today, many U.S. exporters contend that the single most impor-

tant factor affecting the sale of their products is the government financing available to their customers.

This is not the occasion to discuss exchange rates in depth. However, I would note that during a period such as we have been experiencing recently in which the strength of the dollar seems far more related to capital flows and high domestic interest rates than to trade balances, credit becomes all the more important. It does us in industry no good to be told that if we wait two or three years market forces will ultimately bring about some realistic exchange rates. During that period we see our export sales decrease, imports increase, and foreign competition take over market shares which may take us years to recapture—or perhaps lose forever—assuming we are still in business to make the effort. If we are not in a position to deal with the problem of exchange rates, we can at least somewhat offset their negative effects through government-sponsored Exim Bank credits.

Even when exchange rates are not a major problem, the question of the availability of export credit, and the terms of its availability are all-important factors which a potential buyer will weigh in determining from whom to make a purchase. Our export-competing countries fully recognize this, and have much more comprehensive official export programs than our own. Japan's Exim Bank, France's Coface Bank and West Germany's Hermes Bank do not hesitate to mix foreign aid with foreign trade to gain a financing advantage. Other witnesses have already presented you with more than enough numbers to indicate that a much larger share of the exports from our principle overseas competitors are covered by official export credits than is the case with our exporters.

Rather than give you more numbers and generalities, let me talk a bit about my own personal experiences in trying to sell my company's products overseas, and the problems foreign governments' sponsored credit presents to Amhoist.

Now, having discussed the problem, let us turn to the question of what should be done, particularly with respect to possible modifications in the Exim Bank's charter. The ideal way to deal with the foreign subsidy issue would, of course, be to obtain agreement among all major supplier nations to terminate subsidized credits. The new improvements in the International Arrangements On Export Credits is certainly a step in that direction. Further actions are necessary:

The interest floors need to be automatically adjusted with changes in world commercial rates. The new floors are close to current commercial interest rates. They would not have been 18 months ago, and may not be some time in the future.

Some of the more advanced developing countries must be brought into the arrangement. These countries are increasingly aggressive exporters, and use export credit subsidies as a major promotion tool.

Floors need to be negotiated in the aircraft and nuclear sectors.

The issue of mixed credits needs to be dealt with head on (i.e. a multilateral agreement further limiting this practice or a U.S. "war chest" to discourage predatory terms by trading companies).

The above issues involve the most obvious forms of credit subsidization and are issues on which the Administration intends to seek international agreement. Until such accords are reached, however, we would hope that the Exim Bank would be as aggressive as the competition. For example, the Bank should make a greater effort to match the mixed credit programs of other exporters. The Agency for International Development (AID) has already participated in such loans in Egypt, but the funds it has at its disposal for such programs are limited to a few countries. To broaden such a program, there would need to be a statutory shift in AID's mandate, or at least an appropriate understanding with the authorizations and appropriations committees which are responsible for the foreign assistance program.

One possible innovation which might be considered to deal with this problem would be a small trust fund authorized and appropriated to Eximbank, but administered jointly with AID, which could be used to provide the concessional component for mixed credit programs. Such funds could be used to provide an export credit package for any developing country for developmentally sound projects. Such an approach would leave current AID programs to continue supporting AID's statutory mandate, but allow Exim Bank to compete head-on in any developing country with other country's mixed credit programs. Another option might be to earmark a portion of the Economic Support Fund for such a purpose. Hopefully by highlighting this U.S. response, we would encourage other OECD countries to see that such programs are self-defeating, and agreement could be reached to further restrict the use of mixed credits as disguised export subsidies.

Competitiveness is not just a matter of matching interest rates. A key issue in months ahead may well center on the question of availability of credit. A number of developing countries which have historically been critical markets for industrial

country exports are facing major debt problems, which make then considerably less attractive for commercial lenders. If there is a continued slide in oil prices, several oil-exporting countries may become increasingly poor commercial risks. Exim Bank and other industrial country credit mechanisms will have to deal with the question of how readily they will provide credit guarantees. If a number of the developing countries are likely to face new or continued debt reschedulings—and even defaults—then these guarantees, in effect, become subsidies as governments pay off on their guarantees. Once again, we would hope that the Exim Bank would be as aggressive in making guarantees available as the competition, while, at the same time, the Executive Branch would work with other industrial countries to assure that agreements to limit the subsidization of credit would not be undercut by competition to guarantee credits to uncreditworthy countries.

Finally, the competitive issue is not limited to interest rates and country coverage. We must also look to the sectors and companies which have access to Exim programs. The Bank has been criticized at times for being somewhat unresponsive to the particular needs of small to medium-size businesses. Obviously, dealing with such companies tends to be more costly than handling large projects. Often these companies are less familiar with exporting general and Exim Bank programs in particular—hence, more staff time is involved. Even if this is not the case, the relative cost of staff time to the overall size of a loan is likely to increase as the size of a loan decreases.

We believe that legislative history and any statutory change with respect to the primacy of competitiveness versus the cost of money should make clear that the Congress expects Exim to absorb the higher costs of dealing with the smaller firms, even if that means Exim's profit picture is less bright. It is just as important for Exim to make its facilities available to all potential American exporters as it is to meet the competition for big projects overseas.

Finally, ALESA urges the Congress to take a new look at the Exim policy of not providing credit or guarantees for the export of defense-related articles or services. This would include a review of the statutory prohibitions against such activity with respect to the developing countries, as well as the Bank's own policy with regard to industrial countries. This is clearly a sensitive subject. Nonetheless, several points bear consideration:

The United States Government and private industry have made enormous investments in the design and production of defense-related equipment. We produce clearly competitive items in this area.

Exports of defense equipment provide the same domestic employment and economic benefits as exports of civilian goods. In addition, insofar as increased sales lower unit costs, the U.S. taxpayer can benefit through lower costs of items to the U.S. military.

The U.S. Foreign Military Sales program is designed to assist countries to purchase defense articles to help them meet their own security needs, when such assistance is seen as supportive of U.S. security interests. This is a security program—not a commercial promotion scheme.

There are a number of friendly developing countries, particularly in this Hemisphere, where there is no FMS program. We, therefore, have no mechanism to compete for sales with other exporting countries.

There are also no means to compete on credit terms for sales to NATO and other friendly industrial countries.

There are a great many non-lethal, often dual-use products, which the Exim Bank can finance if they are being exported to a civilian purchaser, but not to a military one. This can present particular problems when a country is interested in standardizing certain purchases, or when the military performs services or operates institutions which are civilian-owned or operated in other countries.

We suggest these considerations would at least justify, as part of the charter extension process, some kind of legislative or executive look at whether some modifications in policy and statute might eventually make sense. At a minimum, we believe it would be helpful to have an unbiased look at the degree to which U.S. defense-related exports are put at a disadvantage because of the official credit programs of competing nations.

To conclude, Mr. Chairman, I would hope that the Congress in renewing the Exim Bank's charter would make some modest statutory alterations and lay down a clear legislative history which would clearly establish the primacy of competitiveness in the Bank's mandate. The Bank should be competitive with respect to credit terms and country coverage, and it should make its services available to all U.S. firms with a serious interest in exports. We also believe the Congress should encourage a

cautions reappraisal of the flat prohibition in dealing in any way with defense-related exports.

A for Fiscal 1984, we urge that the Congress accept the Administration's recommendation for a \$10 billion program of guarantees, and fund the direct credit program at least to last year's level—and perhaps as high as \$5 billion. We should note, after all, that the Exim Bank will only make direct loans when there is a serious demand. If, as some predict, interest rates will stay at levels near or below those of the direct credit floor, then Exim will not need to use its full authority, and no harm will be done. If, on the other hand, there should be a requirement for a larger direct credit program, it would be most unfortunate to see export sales and related jobs lost while supplemental authorizations and appropriations bills worked their way through the legislative process—particularly when no direct funds from the Treasury are involved in any case.

Mr. Chairman, I would close simply by reiterating our strong support for the Exim Bank, which has proved to be cost effective in promoting jobs and business. U.S. exporters can compete against the price and quality of foreign goods, but we must have the Exim Bank to help combat predatory foreign financing.

Thank you, Mr. Chairman, for this opportunity to appear and present this testimony.

ALESA

Mr. FAULKNER. ALESA is comprised of a membership of 34 corporations with 800,000 employees, and four international unions with 4 million members, a sizable constituency which is highly dedicated to international trade.

I had the pleasure 5 years ago of appearing before this committee on behalf of the Eximbank and much of the emphasis today is the same as it was at that time.

Foreign trade obviously means jobs and, incidentally, I think I could virtually say all of the above to the statements that have been made to this committee up to this time. I think they really include the salient points that we would like to stress. I'd like to paraphrase this testimony rather than take the time to read it verbatim.

Foreign trade means jobs. It means resources for taxes. It means reduced trade deficits. It means reduced budget deficits.

Union and management come together in many areas and it's heartening to see my colleagues on my right working in our mutual interest as we do with the Communications Workers and other unions to act on behalf of membership employees. The bottom line through all of this is jobs.

The Eximbank charter, of course, must be renewed. The funding must be fully made because the Eximbank is vital to U.S. exporters. There may be some who will disagree with me, but by and large, the exporters of this country will say that the single biggest factor in getting an order overseas is the financing that our customers have available to them. That cannot be understated. There is no longer a technology gap in most exporters' product lines. Maybe some U.S. weaponry and maybe some electronic items enjoy such a gap, that's not the case with most products. It certainly is not the case with our company's cranes.

President Reagan had previously not given a lot of support to the Eximbank seeking to budget cut its funding. We're happy to hear that in his State of the Union address in January he has in fact shown strong support for the Eximbank and for a fully funded, competitive bank. There is a dynamic export market there. The export market, of course, supports jobs and it also supports new

high technology items where the market overseas gives that technology a chance to be developed and distributed.

EXIMBANK VIRTUALLY OUT OF MARKET

As was stated earlier by the other witnesses, U.S. industry can compete in quality of its product and in price. But, unfortunately, we're also putting up with the very onerous fact of mixed credits when foreign competing nations mix foreign aid with foreign trade and the financing that they provide to their country's producers is unable to be met by normal commercial lines and certainly not by the Eximbank. MITI from Japan, COFASE from France, HERMES from West Germany, and others practice predatory financing, and I must state that the Eximbank in our opinion at this time is virtually out of the marketplace as an effective financing medium. We're losing orders, jobs, and we're losing markets, and I must say that having lost a market it's exceedingly difficult to gain it back if not virtually impossible.

In my testimony, I have cited some specific cases where U.S. firms lost contracts because we could not obtain financing from Eximbank or other sources which was competitive with official foreign credit. I would like to present these briefly at this time:

Brazil, June 1981, \$4.5 million involving four of our largest cranes out of St. Paul, Minn. The financing terms we had to offer, 19 percent for 8 years, HERMES bank took it at 11 percent for 8 years. In Argentina, September 1982, \$2.75 million for two cranes, American Hoist at 14 percent variable rate, 5 years, the HERMES bank 8.93 percent fixed for 9 years. In Egypt, this year, 1983, American Hoist at 15 percent—listen to this litany— MITI 9.5 percent, U.K. 10 percent, HERMES of West Germany 8.5 percent.

Senator LAUTENBERG. What was the size of that transaction?

Mr. FAULKNER. I'd have to find that for you, sir. I don't recall it. Probably around \$2.75 million.

I contacted some of my colleagues in the banking business in Minnesota and I would like to add three more examples of lack of competitiveness; Mining trucks to a country in Asia, \$12.5 million project, Exim 13 percent, MITI 9 percent. Refuse trucks in Peru, \$4 million project, Exim 13 percent, COFASE 9.5, Italy Mediocredito 9 percent, HERMES 9.75 percent.

Senator LAUTENBERG. What followed was that this business was lost in each case?

Mr. FAULKNER. Yes, sir. The financing terms were the determining factor in the competition for the sale.

Finally, generators in Venezuela, a \$13 million contract, Exim 13 percent on 65 percent of the contract, Italy's Mediocredito, 9 percent fixed on 100 percent of the contract.

The above examples cite the problems. We suggest solutions in our testimony. Paraphrasing that testimony, we note that negotiated agreements, of course, are the ideal solution. Progress has been made with the interest floors that have been established. However, bringing advanced developing countries into the negotiations is imperative. Their technology and their financing terms, notably in Brazil and other places, are real factors in overseas competition.

Ending the mixing of foreign aid and foreign trade, which was mentioned by previous witnesses, is also a negotiating priority. On an interim basis, it appears to us that there must be some disciplining means for violations that are occurring. The Eximbank must be able to compete against these predatory mixed credits. A fully funded "war chest" is possibly a way to do that. Meeting this problem head-on is absolutely essential in our opinion.

Another way that has just been touched on briefly here is the Agency for International Development in Egypt, along with the Eximbank, jointly have been trying some mixed credits, but certainly AID must have its mandate and charter and funding realigned. It has to be a realistic factor.

There certainly is a problem in LDC's who export oil becoming less creditworthy as a result of falling oil prices. Broadening the credit guarantees must be part of the Eximbank's portfolio if it's going to remain in the marketplace there. We're not suggesting bad debts, but we're suggesting that the Eximbank be competitive in guaranteeing credit where the risk of falling LDC's income creates an extra exposure there for the guarantees.

We also suggest that in rechartering the Eximbank, and in fact in its own internal policymaking, increased emphasis should be placed on serving small- and medium-sized companies. Now we understand that it takes more staff expense to process several smaller loans than one larger one, but we must say that we think Congress should emphasize that the policy of the Eximbank should in fact reach out and grant to small business, coverage because these people are wanting to get into the export business, and certainly they are job creators.

SPEAK OUT ON BEHALF OF ALESA

There's a sensitive issue in some of my final remarks, Mr. Chairman, that I'd like to speak out on, on behalf of ALESA. The fact is that statutory prohibitions right now prevent Exim credit for defense-related articles. We think that the charter should be reviewed, given the fact that domestic jobs are at stake in the defense industry. Furthermore, lower costs actually are enjoyed by U.S. purchasers of military equipment if a larger volume of overseas business is available. FMS does meet the security needs of some LDC's, but several important Latin American countries, for example, have no FMS program. There are other industrial country allies of ours who may not be statutorily prohibited from Eximbank financing of defense related equipment, but Exim internal practice and policy precludes such credits. There should be some review given and credit established for non-lethal or dual-use products that our industry in this country exports. As we know, oftentimes, in LDC's the military sector of that country frequently does a lot of civil work for the social needs of the country where they don't have an industrial complex like our own to perform necessary work, that is, roadbuilding and what have you.

Finally, and in conclusion, Mr. Chairman, a rechartered, strongly competitive, fully funded Eximbank is vital to the needs of U.S. exporters competing in international markets. Incidentally, Mr. Chairman, it was mentioned earlier, before you arrived, that we in

business—I certainly join my colleague, Mr. McMillan from McDonnell Douglas—it may not be politically practical now, but we think the Exim should be taken off the budget. Exim should be able to go into the private money markets with Government guaranteed, tax-exempt bonds and obtain the funds it needs. That puts the political arena a little bit to one side. The oversight can remain by Congress, but certainly this would place Eximbank in the area of commercial realism rather than politics.

We feel we must redirect the competitiveness of the Eximbank, match the predatory contract offers of our foreign competitors, and allow the Eximbank to truly be back in the marketplace on a competitive basis.

Mr. Morgan, Mr. Chairman, is not here today. His testimony has been entered and in his behalf and with his permission I just have two or three points to make, if I may, sir, on the subject of his testimony.

Senator LAUTENBERG. Please do, sir.

Mr. FAULKNER. Mr. Morgan is assistant to the executive vice president of the Communications Workers of America and sends his regrets. There are a couple of quotations in his testimony that we believe are important:

The United States has been suffering from a very deep recession. Unemployment is at its highest level in half a century and Congress has just passed legislation in an effort to help alleviate this situation. It is also now finishing the work on unemployment compensation to States whose funds have been depleted.

This situation certainly seems to argue in favor of a dynamic Export-Import Bank. Here's an institution which does not need direct funding from the Treasury. It keeps people employed and contributing taxes to the Treasury and it protects well-paying jobs in high technology industries and stimulates the creation of new ones.

UNIONS MAKE SACRIFICE

A final quote,

Unions have themselves tried to respond to these difficult economic times. In recent months, in negotiation after negotiation, unions have made major sacrifices in salaries, benefits and job rules.

I would just relate and paraphrase that to say that just 2 or 3 weeks ago, the United Steel Workers took a \$1.25 cut.

Senator LAUTENBERG. I assume, Mr. Faulkner, from the fact that you're presenting this statement, you endorse it.

Mr. FAULKNER. Absolutely. We have some of those negotiations going on ourselves, sir.

Senator LAUTENBERG. I couldn't resist that. I am from the business side, but now I've come to total neutrality.

Mr. FAULKNER. Well, it's hard to be totally neutral in any arena, Senator. To continue:

Unions have made these sacrifices in order that American industry can get back on its feet. Nothing appears more discouraging to union members who have tried to do their part than to see their efforts offset because U.S. industry cannot compete on the issue of export credit. Labor and industry cannot by themselves compete with the financing provided by other governments.

I think that the other parts of Mr. Morgan's testimony are appropriate. I'll not take the time to read them. I wonder in behalf of the time that would have been available to Mr. Morgan if you could give me 2 minutes to deliver some personal comments on an-

other subject—not on the Eximbank—but associated with international trade in a vital way. It's related to the second page of ALESA's testimony and I would promise you no longer than 2 minutes.

Senator LAUTENBERG. I would be happy to do that.

WORLD CURRENCY

Mr. FAULKNER. The fact is, Mr. Chairman, that our country has a dollar, but it is not just a national currency. It is a world currency. In the past 18 months, that currency has risen between 30 and 40 percent in value in competition with world currencies. The yen, the franc, and the Deutsch mark just as early as this previous week have adjusted themselves from the impact of trade moving back and forth across borders. In our opinion—incidentally, I must stress that I'm not speaking for ALESA here; I'm speaking for American Hoist, Derrick, and myself. In countrreis where the currency floats, trade has a tremendous impact, if not the sole impact, on the value of that currency in world markets.

The national currency of our country is really the worldwide currency, and with a record trade deficit of \$44 billion I would suggest to us that trade really has no bearing—virtually no bearing—on the value of the dollar that is enjoying such tremendous heights in its valuation.

So I'm suggesting that we recognize this problem. Caterpillar Tractor has moved its forklift operations, shut them down in America, and gone to Ireland. Atari moved its operations from California to the Far East.

Now what this means is advanced planning by U.S. industry cannot include a lot of expansion in the United States if in fact the return on investment is wiped out by an abnormally high dollar, which renders it incompetent in world markets. For instance, no manner of productivity, engineering finesse, or efficiencies of operations can overcome the high value of these dollars selling against the yen, franc, and Deutsch mark. So that's a problem I'd like to suggest be looked at.

I have a solution. I'm not a financier and I suggest there are smarter minds, but we could perhaps devise a system of price adjustments at our borders, based on what might be called a trade dollar, which would currently be lower than the universal dollar in world currency. The system would regulate imports on a tariff basis and exports on a credit basis, one funding the other, and fluctuating in a realistic way so that U.S. products can compete in world marketplaces and in domestic marketplaces on the basis of their cost effectiveness and on their quality.

So I present this to you, Mr. Chairman. Thank you for the extra time. If you wish a written statement to that point I would be glad to supply it to you. Thank you very much.

[Written statement not received at time of publication.]

Senator LAUTENBERG. OK. I personally would like the written statement, and ask you to supply it for the record. The fact that you disqualified yourself as being nonexpert, but having a solution is, I don't think, extraordinary around here. I've learned that in a fairly short time.

I would ask Senator Proxmire if he has any question he'd like to put to the panel.

ELIMINATE SUBSIDIES

Senator PROXMIRE. Mr. Samuel, can we all agree that the goal we seek is to eliminate subsidies altogether, and that market rate financing for exports should be the norm?

Mr. SAMUEL. I think that would be a goal we would all like to achieve, sir, but that may be some Shangri-La beyond the vision that we all have.

Senator PROXMIRE. When you say Shangri-La, it sounds like it's impossible.

Mr. SAMUEL. Well, I think on the basis—

Senator PROXMIRE. Why can't we do that? Why wasn't the action that was taken by the Eximbank in raising interest rates and then finding that other countries followed suit—why isn't that the way to go? We did that.

Mr. SAMUEL. I think ideally we should not have to have an Eximbank. We should not have to spend Federal or public money for these purposes. Ideally, presumably, the comparative advantage should hold sway in international trade relationships. Access to raw materials, skilled labor force, efficient management, and so forth should be the factors which govern the relations between nations in economic affairs.

Unfortunately, during times of stress such as we're going through now on an international basis, the forces of economic nationalism take over and they make themselves felt in any number of different ways. One of them is through export credit subsidies. We talked about two of them in our testimony, both export subsidies abroad as well as those which impact on purchases in this country.

Senator PROXMIRE. May I just interrupt to say, yesterday Mr. Draper testified, the head of the Eximbank, he said, "We have largely succeeded in our efforts to do away completely with the subsidy element in export credit financing," and he said, "it removed the last differential between our competitors' rates and our rates." Is he wrong?

Mr. SAMUEL. We believe so. I would be happy if my associate, Mr. Folley, would like to add to that.

Senator PROXMIRE. Mr. Folley.

Mr. FOLLEY. Well, Senator, as you already know so I don't have to tell you—there is no ideal world and there are subsidies, and essentially what we're looking at in big ticket items is very much like your younger days when you bought an automobile. It wasn't the price of the automobile, it was the monthly payments. We come up against that every time and it's the financing package that is very clearly the difference, as Mr. Faulkner pointed out, in being able to obtain the sale. Without the sale, we will not get the jobs.

Senator PROXMIRE. Well, they say they have removed the last differential between our competitors' rates and our rates. Now is he wrong.

Mr. FOLLEY. Well, he said that about removing the 1 percent added charge. I think that's temporary and I think that they have

not established the competitive rates. The Bank has now gone to OECD rates, that's correct; but there are other elements of subsidy that remain uncompetitive.

Senator PROXMIRE. Well, he says he's competitive.

Mr. FAULKNER. Senator, could I break into the thrust of your question to say he's wrong.

Senator PROXMIRE. Does anybody here think Mr. Draper is right? [No response.]

Senator PROXMIRE. Well, I don't mean anybody in the audience; I mean anybody on the panel.

Senator LAUTENBERG. Mrs. Draper is sitting back there. [Laughter.]

Senator PROXMIRE. Well, frankly, I'll support Mr. Draper.

Now, Mr. McMillan, you say that the only way to put the financing of exports on a sound economic basis is to permit Eximbank to compete so effectively that it convinces our foreign competitors that they have nothing to gain by subsidy-supported financing practices.

Now it seems to me you may be fighting the last war. Mr. Draper testified that Eximbank does provide competitive financing. He acknowledges that for a short period there was an imbalance, until the agreement on minimum rates was achieved, but he says that's behind us. If that is the case, wouldn't a big Eximbank subsidy program send out the wrong signal to the world, a signal of a kind of a swash-buckling Uncle Sam throwing bucks around that probably couldn't be sustained very long?

Mr. McMILLAN. Assuming that Mr. Draper is correct that the Eximbank has convinced our competitors that they no longer need to subsidize the rate, the existence of the Bank and the capacity of the Bank to continue to do it could be essential to maintain any discipline in the marketplace.

Senator PROXMIRE. Would you say that last part again?

Mr. McMILLAN. Basically, if it has been the Eximbank's capability to match foreign offers that has brought the lack of subsidy in international financing, that the agreements have been entered into and adhered to, if you assume you agree with Mr. Draper, then the existence of the Bank and its willingness to continue to finance is essential to keep the competitors from again moving to a subsidy position.

The idea that the Bank is here, it has a budget, and it is prepared to meet those offers is the indication to the foreign competitors that they're not going to have an advantage.

Senator PROXMIRE. Well, but he did this under their present authority. What they did they've done under the present authority. I presume they stand ready to do it again if necessary.

Mr. McMILLAN. Well, I thought you were suggesting the fact that since we have achieved discipline in the marketplace there was no need for additional Eximbank capability. My response to that would be, if you assume that that discipline has been achieved, the existence of a viable Bank is essential to maintain it.

Senator PROXMIRE. Well, I take it that we agree that we need the Bank. The issue is whether we should change the mandate. And they were able to do it under their present mandate.

MANDATE SHOULD CHANGE

Mr. McMILLAN. I agree with the other gentlemen here that the mandate should be changed. There is some disagreement as to the mandate of the Bank now. The language indicating that they should take into account their lending rates and borrowing rates and the fact that they are instructed to be fully competitive basically, in my mind, if there is a need for meeting subsidized foreign competition, the method that we have in the United States is probably the most efficient way. In Britain, Germany, France under the ECGD, a Government agency guarantees the loans and by annual appropriations the Government pays the interest differential to the Banks. In the United States, at least the system is an efficient method. If the Eximbank were to borrow, for example, in civil aircraft, at 10-year Treasury rates, and they were to kick that rate 150 to 200 basis points as has been in the past, that's probably an attractive lending rate to an overseas competitor.

The subsidy element in that can be argued up and down as to how you measure it and whether you do or not. Basically it says that 150 or 200 basis points over a U.S. 10-year Treasury rate is an attractive lending rate in international competition and under that the Bank still reports a profit.

But the answer to your question simply is that in my mind we have had people who have attempted to take market share away from the United States, particularly in civil aircraft. They have not been able to do so on the basis of comparative advantage. They have attempted to do so by subsidizing the financing rates. The answer is simple. If you're able to meet those rates, it's costly to those governments too, and unless they feel they're getting an advantage, they're not going to continue to subsidize. But if there's any indication here in the United States that we're unwilling to meet them and they can get an advantage by doing it, they will continue to do it.

IMPORTS PROHIBITED IF SUBSIDIZED

Senator PROXMIRE. Mr. Samuel, you make a recommendation that imports into the United States be prohibited if they carry subsidized or financing inconsistent with the agreement on export credits. I agree with you on that. I think you're right. I completely agree with you.

Have you drafted legislation to accomplish this and do you believe we can get public and congressional support to get that adopted and administration support?

Mr. SAMUEL. As I indicated in my testimony, Senator, I think there's ample precedent in other areas of law that we should be able to get at least a respectable hearing. I'm not sure we can guarantee support. As I indicated, the Hart-Scott-Rodino Act in the way it operates in the merger area provides the kind of precedent that I think would be useful. There, as you know, companies about to merge, large companies, and there's a cutoff point—

Senator PROXMIRE. Do you think you could start by getting your fellow panelists to agree with that?

Mr. SAMUEL. Since I don't know the answer I don't want to ask. If I could caucus first, maybe.

Senator PROXMIRE. I would ask if anybody would disagree with the recommendation that imports into the United States be prohibited if they carry subsidized financing inconsistent with the agreements on export credits?

Mr. McMILLAN. I don't believe—at least speaking for McDonnell Douglas—that we would be prepared to support the prohibition on imports. I think the matter needs to be addressed. In my testimony it's one of the fundamental loopholes of the existing legislation. Currently under all of the international agreements, the Airbus consortium could come into the U.S market and offer subsidized rates in the 8- or 9-percent range, and I see no mechanism in existence at the present time that would prohibit that effectively.

Addressing that problem I think should be one of the first priorities in the amendment of the Export-Import Bank Act.

Senator PROXMIRE. Let me just ask one more question, Mr. Chairman.

Mr. Faulkner, you say take Exim off budget, let it go to the market with Government guarantees. Well, that's a great deal from your standpoint if you can get it. Why should the taxpayers subsidize this? Why not just go to the market without Government guarantees?

Mr. FAULKNER. Well, it's an area of job production, in my opinion, Senator, and we've got IRBs in other areas for a precedent and we think it is to the benefit of the taxpayer-citizenry of this country to make incentives for the investment community to support this kind of activity. The Export-Import Bank does create jobs. IRBs do create jobs. Being tax exempt and with Government guarantees, many of us feel like the Bank could achieve—

SOME RESTRAINT

Senator PROXMIRE. You see, Mr. Faulkner, the difficulty here is that the one discipline you've got here is that there's some restraint because the Congress and the President are concerned about the budget. We are concerned about the cost. We have that obligation to the taxpayers and we try to balance the idea of self-financing with assisting. If we knock out the self-financing restraint and let you fellows just have a guarantee, it seems to me that you aren't protecting the taxpayers we should.

Mr. FAULKNER. Well, of course, I would think you would be able to maintain an oversight of the activities of the Bank whether quarterly or annually audited, but the fact—

Senator PROXMIRE. My experience in the 25 years I have been on this Committee is that's pretty weak-kneed.

Mr. FAULKNER. Perhaps so, but in any event, the bank should operate as a commercial entity like the commercial banks with whom it deals, and the business marketplace of banking and financing overseas. The political elements of budget cuts to the Bank are really not realistic. It is the cash flow. Those aren't cuts like food stamps and other expenditure items that the line item that Mr. McMillan mentioned in his testimony. The Export-Import Bank in fact is a cash flow in which the funding is returned with principal and interest and except for the last 2 years has shown a profit. So

it's not really a line item budgeted expense in the same context as are the other budgeted items over which you take purview.

Senator PROXMIRE. My time is up but I would just point out that Mr. Draper wants it to operate as a commercial bank. The Exim-bank is going to sustain losses of about \$700 million. He testified to that yesterday. A bank wouldn't do that.

Mr. FAULKNER. Well, Mr. Draper is a much more financially expert man than I am, but I suggest that his exposure to that three-quarters of a billion dollar loss is in fact a cash flow problem and not a balance sheet loss transaction. No bank—and I serve on a bank board—will write off the first fault payment in a loan if they have an opportunity in future years when times get better to in fact either renegotiate that loan or get back payments in future years. I wouldn't think the Bank is going to in any way write off three-quarters of a billion dollars of loans as a result of the deepest worldwide recession we've had.

Senator PROXMIRE. Well, whether they write it off, they are going to have to come to us and we're going to have to replenish it, and that's going to be another problem in decreasing the deficit at a time when all of us agree that that's the most paramount economic problem that confronts us.

CASH FLOW

Mr. FAULKNER. Again, Senator, without begging the issue, it is a cash flow rather than a debt loss. Those debts are not lost at this point. In most opinions, they will be recaptured in future years.

Senator PROXMIRE. Well, we hope.

Mr. FAULKNER. Yes, sir. We hope.

Senator PROXMIRE. Thank you, Mr. Chairman.

Senator LAUTENBERG. Senator Proxmire, since there will be many occasions when the shoe will be on the other foot and I'll be sitting junior to you on the Committee, if you would like more time, please continue.

Senator PROXMIRE. No, no. I love Senator Lautenberg. He's one of these country boys who comes up and he's like the fellow who sits down at the poker game and says, "Is the 3 higher than the 2?" And then he goes on and takes all your money. [Laughter.]

Senator LAUTENBERG. This is the second time I've heard that. Since I'm new in this business and Senator Proxmire said that he's been here 25 years—I think I've had 25 business days with this responsibility, and a lot of it is new. Since I come from the business arena, I believe I know something of the problems—less to do with international trade because mine was a service business and we managed to compete overseas fairly effectively without too much help from the Government or financial institutions, but maybe the conditions are different.

CIVIL AIRCRAFT INDUSTRY

I was interested, Mr. McMillan, in your reference to the civil aircraft industry. I served on the transportation agency in the New York-New Jersey area and it was their Air Speciale competing with the Airbus for some business here. It seemed to me that their edge was a long way away from the financing edge. I think it had

to do with very efficient engine operations and it had to do with relatively short requirements in take-offs and landings. As I understood it, it was a pretty good aircraft. Is there an intimation in what you said that the edge again was essentially financing?

Mr. McMILLAN. In any head-to-head competition where the equipment is relatively comparable, the financing becomes a very key factor. Airbus builds a good airbus obviously with the consortium of four countries, but that's a very complicated area in essence. The evolution of the Airbus group, the evolution of the family of equipment, the contribution by the respective governments to the development of that line of equipment—

Senator LAUTENBERG. Didn't assign the proper capital costs for it?

Mr. McMILLAN. That's true. The development dollars—just as a generality, cutting across the entire discussion today that I see, is in years past—Senator Proxmire said he had been here 25 years—I have been working in the financing of aircraft for 28 years. One of the basic considerations as you attempt to sell internationally is the fact that you have a company with finite resources. McDonnell Douglas has a net worth of \$1.8 billion; Boeing is around \$2.8 billion. We are prepared to compete around the world with anyone on the basis of people who also have finite resources. The fundamental consideration in today's marketplace is that we are competing against governments and financing is an element of that.

Senator LAUTENBERG. I just was concerned that the reason being offered for a disadvantage was, in my view and in the example I gave you, not exclusively financing. There was an essential product difference, as I understood it, when the choice was made. Because I know our aircraft industry has to remain very strong, and I was hoping that the competitive side for the American producer would pick up. But as I understood it, there was a product disadvantage.

Mr. McMILLAN. The current posture of the Eximbank with regard to civil aircraft is that they will not consider a financing offer unless there is a competitive foreign airplane that is being offered. So if you have an airplane and you're trying to sell it to someone and there's not a potential foreign competitor, the Eximbank at the present time will not finance that.

Senator LAUTENBERG. OK. Thank you. It's nice to see business and labor asking for the same thing on occasion. I was pleased to see your endorsement of the fact that labor had made many sacrifices and I guess this would be permanently in the record and perhaps you will be able to use that in one of your company's negotiations one of these days. The fact of the matter is that apparently Mr. Draper feels that the Bank has been competitive in the last year. Obviously you disagree. However, would any of you, especially from the business side, assign any dollar figure to the amounts of lost business for the group or companies that you represent as a result of the inability to compete on financing terms?

Mr. FOLLEY. Senator, about 5 months ago we directed a letter to the Eximbank doing precisely that, citing maybe half a dozen instances. I didn't bring it with me, but I certainly can send that to you. These represent situations that because of the competitive financing, similar to Mr. Faulkner's examples, we have direct losses of business.

Senator LAUTENBERG. Where is Ingersoll Rand's headquarters?

Mr. FOLLEY. I'm surprised you don't know the answer to that.

Senator LAUTENBERG. I want to see if you know the answer. I wanted you to give New Jersey a boost here.

Mr. FOLLEY. Woodcliff Lake, N.J.

Senator LAUTENBERG. Thank you very much. That took a lot of doing, I'll tell you.

Senator PROXMIRE. If you'd like to move to Wisconsin, we'd be happy to have you.

Senator LAUTENBERG. I won my campaign on my opponent having once said that, not to Wisconsin, but to Utah. In New Jersey we need and respect all the business we can get.

Mr. Samuel, from the standpoint of job opportunities: Is there anything that you can point to, in terms of your organization's assessment, as to what we might have lost by way of jobs as a result of the inability to compete on financing terms?

BOMBARDIER CASE

Mr. SAMUEL. Mr. Chairman, I could not make an estimate in the aggregate. I could give you one example from our point of view however, and that's the case which I'm sure you're familiar with, the Bombardier case, with the MTA, where the job loss—I don't recall the figure and I'd like to amend this in the record—amounted to something like 15,000 jobs. Jobs were lost not because of inferior products or lack of skills or any other factors which normally should dictate who gets a bid, but because of hundreds of millions through the credit subsidies offered to the MTA.

Senator LAUTENBERG. Well, that's a complicated subject. But we're discussing the essence here, I think, of how we compete and whether or not we call on our Government, on our taxpayers, to help us in this arena.

Mr. Faulkner, I heard you very clearly in terms of how you thought the bank could get its capital. Senator Proxmire obviously thinks that if you can get it on your own or if the Eximbank could get it on its own without a Government guarantee, it ought to do so. But that doesn't seem to be the case. Would you volunteer an opinion on that?

BANKS SHOULD GO IN PRIVATE MONEY MARKET FUNDS

Mr. FAULKNER. We submitted the suggestion 2 years ago to Congressman Neil's subcommittee in the House and there was some move in this area. I think frankly politics shot it down. I'm not just sure where my ALESA colleagues and I can research that matter for you. I would be very pleased to do it because we feel very strongly about it, but there has been some activity since that hearing 2 years ago in an arena of trying to see if the bank could and should go into the private money market for its funds and I'd be pleased to submit additional written statement to that point regarding your inquiry.

Senator LAUTENBERG. Do you remember the conclusion?

Mr. FAULKNER. I don't believe a conclusion was realized. I think it had enough attractiveness in view of the budget hassle at that time and the need for a fully funded bank, especially with the

Reagan administration at that time cutting funding in the bank and figuring it as a budget cut which it is not, and I believe that their investigation brought home which in fact would have perhaps led on to a support of that position, but I don't have it clear in my mind.

Senator LAUTENBERG. OK. In terms of spillover of strong Eximbank mandate: Would the proposal as it's presented now—the reserve fund being available—I guess \$2.7 billion—would that help us again with concessions, do you think, in other trade discussions?

Mr. FAULKNER. You're speaking about the STR's position in negotiating with other countries?

Senator LAUTENBERG. Yes.

Mr. FAULKNER. I think it's kind of like the Senator remarked about the 3 over 2. I think it would give you a trump to play in that hand that would be very valuable.

Senator LAUTENBERG. Senator Proxmire, is there anything else that you would like to ask?

Senator PROXMIRE. No.

Senator LAUTENBERG. Is there anything else that any of you would like to offer? If not, then we will conclude this discussion. Thank you.

Our next panel consists of Mr. Sohn, Mr. Trammell, and Mr. Vaughan.

Mr. Trammell, do you want to start?

STATEMENT OF WILLIAM D. TRAMMELL, ASSISTANT TREASURER, FLUOR CORP., IRVINE, CALIF., REPRESENTING THE NATIONAL CONSTRUCTORS ASSOCIATION

Mr. TRAMMELL. I would be glad to lead off, sir.

[Complete statement follows:]

STATEMENT OF WILLIAM D. TRAMMELL, ASSISTANT TREASURER, FLUOR CORP., ON BEHALF OF NATIONAL CONSTRUCTORS ASSOCIATION

Mr. Chairman, my name is Bill Trammell, Assistant Treasurer of the Fluor Corporation in Irvine, California and Chairman of the National Constructors Association Subcommittee on Export Financing. The NCA formed this Subcommittee more than two years ago in order to assess the role of export financing in the award of major industrial projects worldwide and to make recommendations regarding specific action that would enhance our industry's international competitiveness. The NCA represents major U.S. firms currently engaged in the design and construction of large scale industrial projects both at home and abroad.

The NCA is part of a broader umbrella organization called the International Engineering and Construction Industries Council (IECIC), which also includes the American Consulting Engineers Council (ACEC), the Associated General Contractors of America (AGC), and the American Institute of Architects (AIA). We are pleased to appear before you on behalf of the four million American workers represented by IECIC.

Mr. Chairman, I had an opportunity to appear before this body last September to report to you the findings of our Export Financing Subcommittee. I discussed our analysis of the fundamental relationship between a nation's exports and its ability to provide adequate, competitive export financing. I presented our assessment of the Export-Import Bank under its current charter and management, and the reasons why we feel U.S. exporters are at a distinct disadvantage as they compete against firms whose own governments provide export credits under far more attractive and supportive terms. We have conducted an exhaustive study of alternative financing arrangements, involving both the public and private sectors, and have returned time and again to the same conclusion: We see no alternative in the near future to a strong, flexible, competitive Eximbank.

Mr. Chairman, we appreciate this opportunity to discuss our views on the Export-Import Bank with you once again. Despite Eximbank's lowering of interest rates to conform with consensus guidelines and other recent and welcome changes, we believe the basic tenets of our previous statement still apply.

Our presentation of September 16, 1982 was based largely on a series of individual case studies analyzing projects undertaken by my company. Three of the projects cited were financed at least in part by Eximbank and three were not. Through a demographic breakdown of the goods and materials procured from U.S. manufacturers in each instance, we attempted to show the ability of engineering-construction firms to carry along exports from their own country as part of a contract award. The analysis included an estimation of the U.S. jobs associated with the procurement.

One one project alone, the Alrar Gas Cycling Project in Algeria, Eximbank provided a \$164 million direct credit to Sonatrach, the Algerian national oil company, covering 75 percent of all estimated U.S. exports associated with the project. That project, which was begun in 1978, eventually accounted for more than \$150 million of U.S. equipment exports. The balance of the direct credit was applied to engineering, insurance, shipping, and other U.S. services.

Our statement last fall also took a look at projects overseas where U.S. contractors utilized of-shore offices, and did not even consider approaching Eximbank in preparing their client proposals. This explains at least in part the decline in demand for official U.S. export credits in recent years cited by Eximbank. Our experience indicates that demand has not necessarily declined; rather U.S. firms are increasingly looking at overseas subsidiaries to satisfy clients who require strong financial support.

I would be remiss if I did not mention at this point, Mr. Chairman that there are notable instances in which Eximbank under Bill Draper has indeed shown the resolve and aggressiveness necessary to win projects overseas for U.S. firms. We referred in our previous statement to an Eximbank credit agreement covering a refinery expansion contract in Indonesia awaiting Congressional approval. Because of the high quality of professional staff at Eximbank and its willingness to expend considerable time and effort over a long and difficult period of negotiations, an approximate \$300 million credit agreement was signed earlier this year and my company is proceeding with the project.

All of the examples and specific case studies cited in our previous statement before this Subcommittee are still relevant, however, and still represent our conviction that a strong, competitive Export-Import Bank is an essential factor in overall U.S. export performance. I commend our statement to you once again as printed in the Hearing Record for Committee on Banking, Housing, and Urban Affairs, September 14 & 16, 1982, Serial 97-73, pp. 239-295. We would of course be pleased to submit addition copies directly to you or your staffs.

In the months since those hearings, the NCA has worked closely with your Subcommittee and groups such as the Coalition for Employment Through Exports (CEE) in order to contribute in any way possible to your efforts on behalf of the Export-Import Bank. Several of our members had considerable input into CEE's January 31, 1983 memorandum to Chairman Heinz regarding Eximbank's charter. We have since communicated our endorsement of CEE's recommendations to the Chairman. I think it would be useful to discuss several of the major points appropriate for Congressional action which are included in these recommendations.

It is the consensus of our membership that no single portion of Eximbank's charter is more important than a clear statement of purpose and direction. Section 2(a)(1) and Section 2(b)(1)(A) clearly charge Eximbank with supporting U.S. exporters under conditions competitive with rates and terms available to other nations. Later references in the charter dealing with consideration of the average cost of money have provided a basis for the Administration's insistence that Eximbank always operate on a self-sustaining basis. This attitude has been enhanced by the fact that Eximbank has operated profitably for over thirty years.

Recent events have shown that it may not always be possible for Eximbank to operate at a profit. Nevertheless, the need for competitive export support remains, and is in fact heightened in times of high cost of money. Clearly, it is not the goal of Eximbank to operate as profitably as private financial institutions. In fact, for limited periods of time Eximbank may have to operate at a loss if it is to carry out a primary mandate of facilitating exports competitively. The General Accounting Office has pointed to a perceived contradiction between support for exports and profitability, and has noted that legislation is required to resolve Eximbank's mandate (GAO 10-80-16, p.24; GAO 10-81-48, p.v.). Eximbank Chairman Bill Draper him-

self has stated before the Senate that the Congress has not indicated which objective should have priority.

We can only emphasize our agreement that Congress should determine clearly and unequivocally the kind of institution that it wants Eximbank to be. We feel it should be a competitive export promotion tool armed and ready to counter financing packages provided for our international competitors by their own governments. This body understands better than we the mechanics for accomplishing this clarification of goals, but we suggest that the phrase "in all its programs" be inserted after "To meet this objective" in Section 2(b)(1)(A), and "that principal" be deleted prior to "countries whose exporters compete with United States exporters" in the same subsection. We agree furthermore with CEE that insertion of the word "fully" after "which are" in Section 2(b)(1)(B) would be useful.

Mr. Chairman, the NCA's Export Financing Subcommittee feels strongly that a clear statement of priority within Eximbank's charter would eliminate the need for many supplemental proposals discussed over the past year. For example, while this Association has certainly supported the concept of a special "warchest fund" specifically authorized to meet foreign competition, we feel that a clear and unambiguous statement within the Charter directing Eximbank to be competitive would make this provision unnecessary. Thus, clarification of Eximbank's mandate to be fully competitive in facilitating U.S. exports would satisfy most of our concerns.

A second action which our industry feels would enhance Export-Import Bank's performance would be a statutory reinstatement of the Eximbank Advisory Committee, which was allowed to lapse under the previous Administration. Directors of Eximbank need to know first hand which industries are being affected by the lack of competitive export financing and to understand the consequent effect on corporate strategy. An expanded Advisory Committee including experienced representation from service industries as well as other sectors of the economy could play an important role in assuring that Eximbank remains aware of current needs and the most efficient use of the bank's resources.

We feel that the bank of business input into the decision-making process of Eximbank may be at least partially responsible for Administration belief that current demand does not justify a higher lending authority. An Advisory Committee would emphasize to the Board, Mr. Chairman, that the demand is indeed there for those who care to see it. Because Eximbank is not perceived as being competitive, however, that demand is being channeled to non-U.S. suppliers supported by foreign export credit institutions.

Our membership is able to provide a number of examples of projects being financed overseas where the Export-Import Bank may not have been considered competitive. M. W. Kellogg is currently proceeding with a \$200 million aromatics project for Pertamina, the government oil company of Indonesia. About a year ago, Kellogg approached the national financing institutions of several different countries, including the United States, to assess the credit arrangements available for portions of the project. Preliminary agreements were reached with institutions from Belgium (Ducroire), France (COFACE), Great Britain (ECGD), Italy (SACE) and Japan's Eximbank based on an interest rate in each instance of 7¼ percent¹ to be paid in twenty semiannual installments. Japan's repayment schedule was even more attractive. The Export-Import Bank of the U.S. was considered at the early stages as well, but because its high interest rates and 2 percent surcharge were less attractive than those offered elsewhere, negotiations were not pursued.

The contract was signed by Kellogg earlier this year based to a large degree on the strength of the credits made available by the five overseas financing institutions. The amount of financing from each national export credit agency is subject to change, depending on the ultimate procurement pattern. Whereas the U.S. economy will benefit to a certain extent from the home office support provided by the engineering-construction contractor, very little of the actual procurement of equipment and other services associated with the project will be sourced in this country. That procurement, as well as the jobs required to support it, will come for the most part from the host country and most importantly from the countries supplying export credits.

In another current example, a British subsidiary of my own company, Fluor Ocean Services Limited, was awarded an \$80 million contract by Statoil, the Norwegian national oil company, for management services related to its \$3.5 billion Statpipe Project. The client's interest in a U.K. management team was enhanced substantially by an attractive \$450 million U.K. export credit, and the procurement of

¹ COFACE charges an additional .5% insurance premium and Ducroire a 0.2 percent surcharge.

all associated goods and services, which is just beginning, will be influenced by the source of engineering as well as favorable export credits. Similar awards for \$120 million of diving and pipe-laying services and for \$88 million of protective pipe coating services were made to firms supported by export credits from France and Denmark respectively. U.S. export financing was not utilized because, in the client's words, "it was not considered worthwhile to proceed under Exim."

We are finding that in recent years, examples such as those cited above are not uncommon. They certainly account for substantial losses of exports that could and should be supporting U.S. workers here at home. Based on statements made by the Administration, Eximbank may not even be aware of these losses. We believe that an active Advisory Committee, made up of representatives from the U.S. exporting community, could play an important role in identifying and dealing with major exporting opportunities which may be escaping Eximbank's attention.

As I stated earlier Mr. Chairman members of the National Constructors Association have worked closely with the Coalition for Employment Through Exports, and endorse its detailed and thorough recommendations for amendment to Eximbank's charter. We also join CEE in acknowledging the truly extraordinary work done by this Subcommittee and its staff in support of a strong U.S. presence in markets around the world. Without going into detail that would be unduly repetitive, we feel it would be useful to emphasize briefly in closing some of the suggestions made by CEE and others that would, in our opinion be particularly appropriate for legislative action:

Terms of Directors: We agree that staggering the terms of service for Eximbank directors would be useful in promoting political independence and guaranteeing greater continuity of policy.

Budget Treatment: The NCA agrees that inclusion of Eximbank in the unified budget is misleading and inappropriate. We support recommendations that the General Accounting Office consider more realistic treatment, possibly under a new unified federal credit budget.

Congressional Notification: We support increasing substantially the amount of a loan or guarantee requiring Congressional approval from the current \$100 million to \$250 million.

Mixed Credits: The NCA supports the concept of multilateral negotiations initiated by the Administration to reduce the use of official mixed credit financing. Our members feel strongly, however, that where necessary U.S. firms should have access to the same tools. We therefore support the establishment of a mixed financing arrangement between Eximbank and the Agency for International Development for matching similar programs in use by our competitors.

Extension of the Act: The NCA endorses the extension of the Export-Import Bank Act of 1945, as amended, for a period of six years. We endorse further the maximum level of funding possible within current budget constraints.

Service Exports: The NCA encourages the recognition of U.S. services in committee language as an increasingly important segment of our economy, particularly in terms of potential export markets. In 1980, only 2 percent of total direct credits authorized by Eximbank supported service contract. Engineering insurance, shipping, and other services comprise a growing sector of the U.S. economy, and should be encouraged.

Importing Country and Third Country Costs: Our membership feels that in order to be truly competitive in foreign markets, Eximbank should provide coverage for a portion of local and third country foreign content costs associated with export projects. Foreign export credit agencies provide as much as 15 percent of the value of their exports for each of these costs.

Mr. Chairman, let me thank you and members of this Subcommittee again for the opportunity to appear before you as part of these hearings. I hope you will consider the NCA as a resource for you and your staff to call upon in any way that we can be of assistance, and I would be pleased to answer any questions you may have.

Thank you.

Senator LAUTENBERG. Thank you, Mr. Trammel.

I propose we pick up the order as it was going to be. Mr. Sohn.

STATEMENT OF STEPHEN SOHN, VICE PRESIDENT, UNITED TECHNOLOGIES CREDIT CORP., ACCOMPANIED BY AVA FEINER, DIRECTOR, INTERNATIONAL TRADE POLICY, INTERNATIONAL DIVISION, U.S. CHAMBER OF COMMERCE

Mr. SOHN. First of all, I would like to ask that our written testimony be accepted into the record and I'm abbreviating my remarks here today.

Senator LAUTENBERG. Very good.
[Complete statement follows:]

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States is the largest federation of business and professional organizations in the world, and is the principal spokesman for the American business community. The U.S. Chamber represents more than 226,000 members, of which more than 221,000 are business firms, more than 2,600 are state and local chambers of commerce, and more than 1,200 are trade and professional associations.

More than 90 percent of the Chamber's members are small business firms having fewer than 100 employees. Yet, virtually all of the nation's largest industrial and business concerns are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the U.S. Chamber represents a wide management spectrum by type of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—numbers more than 15,000 members in the U.S. Chamber. Yet no one group constitutes as much as 23 percent of the total Chamber membership. Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity and not a threat. In addition to the 47 American Chambers of Commerce Abroad, an increasing number of Chamber members are engaged in the export and import of both goods and services, and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

STATEMENT OF STEPHEN SOHN, FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Stephen Sohn, Manager-Export and International Project Finance, of United Technologies Corporation, and Vice President of UT Credit Corporation, a United subsidiary. I am also Chairman of the Export Finance Working Group of the Export Policy Task Force of the Chamber of Commerce of the United States. I am testifying on behalf of the Chamber today. Accompanying me is Dr. Ava Feiner, Director of International Trade Policy for the U.S. Chamber.

The Chamber welcomes this opportunity to present its views on the terms of renewal of the U.S. Export-Import Bank (Eximbank) Charter. The role of the Bank in supporting U.S. exports is particularly important in the content of current world economic conditions, including slow growth, deep concerns about the high debt of many nations who are our major foreign customers, and mounting foreign challenges to U.S. businesses in global markets.

My testimony first discusses the role of the Eximbank in world trade today; second, proposes needed changes in the Eximbank Charter; and third, states our recommended objectives for a comprehensive and fair international agreement on export credits.

THE TRADE PICTURE AND EXIMBANK

The liberal trading system, a system that set the world on a course of unprecedented prosperity in the aftermath of devastating war and depression, is in jeopardy. Some people now question the merits of a liberal trade policy and more often one hears proposals to insulate U.S. industries from foreign competition as the way to restore growth and save jobs. But insulation leads to economic stagnation, wasted resources, fewer jobs and lower living standards. Experience has taught us

that further closing off of world trade markets would only intensify slow growth and unemployment problems in the U.S. and around the world.

The best policy for creating growth and jobs is one that promotes trade expansion and liberalization. The U.S. always has had a stake in opening world markets, and a strong interest in resisting pressures at home and abroad to close them. Expanding exports to our full potential is particularly critical for the U.S. at this time of high unemployment. Estimates are that every \$1 billion in exports creates some 30,000 to 50,000 jobs in the economy. One out of six manufacturing jobs depends on exports, and one out of three agricultural acres produces for exports. Moreover, 80 percent of all new jobs in manufacturing created during the late 1970's were linked to exports.

Americans recognize the benefits of exports. In a recent Consumer Opinion Survey conducted by the Gallup Organization for the U.S. Chamber, a large preponderance of respondents said they believed that the U.S. government should spend more than it is now to promote U.S. exports in order to help U.S. companies sell in foreign markets. A majority of those who are union members said we should spend more.

The best defense against protectionism is a robust economy marked by the strong competitiveness of U.S. products and services in international markets. To assure this, the U.S. should have a forward-looking trade policy, aimed at realizing the full growth benefits of trade for Americans. A strong Eximbank, responsive to the changing demands placed by world economic conditions on American business, should be a cornerstone of that policy.

The Chamber believes that what most serves the U.S. economy are trade relations based on market forces, not subsidies or protection. Therefore, our goal continues to be the elimination of export credit subsidies worldwide. We strongly support U.S. negotiations towards this goal.

To assist in moving world conditions toward the ideal of non-subsidized competition, U.S. institutions—including the Eximbank—must respond to reality. And reality is characterized by widespread foreign government credit subsidies and certain capital market imperfections. Lost sales which a U.S. supplier should have won, based on commercial terms of a competitive bid, mean lost jobs, growth, tax resources and opportunities for U.S. technological leadership. Foreign credit subsidies should not be permitted to deny American firms and workers the benefits of trading at our full export potential.

The Eximbank can and should play a strong role in helping to correct the distorting effects of foreign government finance subsidies and other capital market imperfections. By neutralizing these distortions, Eximbank helps restore competition for export sales to a market basis and strengthens the ability of the U.S. to negotiate for a stronger discipline on export credit subsidies.

The Eximbank also should be responsive to the many countries with weakened financial conditions whose markets for U.S. export have become important to growth in our economy. Because of foreign exchange constraints, many of our best customers may be hard pressed to finance imports critical to their economies. For example, U.S. exports to developing countries had fallen by 17 percent in November of 1982, compared to a year earlier. Exports to Mexico, the third largest market for U.S. products, fell by almost 43 percent in the same period. At a time of falling interest rates and rising concern about foreign debt, credit availability may be more important than credit cost. Therefore, Eximbank should stress guarantees and insurance in order to support worldwide growth.

Consequently, the Chamber endorses the stress on guarantees and insurance reflected in the Administration's proposed increase of fiscal year 1984 authority for these purposes to \$10 billion. Nonetheless, budget authority for direct credits must be adequate and readily available to meet urgent exporting needs. The Administration has proposed authority for fiscal year 1984 of \$3.8 billion in direct credits, to be supplemented by as much as \$2.7 billion in additional authority, if conditions of foreign subsidy or high market rates so warrant. The Chamber believes that under current economic circumstances, this is a justifiable approach, but is concerned that a busy Congressional schedule could delay or prevent timely action of supplemental authority. Therefore, a strong signal of intent from Congress and the Administration to authorize a supplemental under the appropriate conditions, is desirable.

Finally, the Eximbank can play a role in helping the United States respond to industry targeting by foreign governments. Increasingly, many foreign governments are using policy instruments, such as credit or R&D spending, to promote favored industries, perceived as future winners, at home and in world markets. Most of these industries are ones in which the United States has, or can be expected to develop, a comparative advantage. There is a risk that foreign industrial targeting could reduce the access to foreign markets needed by U.S. industries in order to

assure their future technological leadership. Since subsidized export financing is an important tool of foreign industry targeting, a strong Eximbank, committed to assuring competitive financing to U.S. exporters, is one of the most important positive tools we have to counter the effects of such targeting.

In short, the Eximbank should be a modern institution, adapting to new conditions. Old programs and methods don't necessarily help us meet new challenges. Changes to the Charter of the Eximbank should aim to make the Bank current and forward-looking.

RECOMMENDED CHANGES TO THE EXIMBANK CHARTER

For all the above reasons, the Chamber supports the following changes to the Eximbank Charter:

First, the conflict between Eximbank Charter mandate to be competitive and its assumed direction to be self-sustaining must be resolved. Eximbank is required to consider the average cost of money in setting interest rates. This and other directives in the Charter have been used by Eximbank officials to argue that the Bank has a mandate to be "self-sustaining" that prevents it from meeting credit terms offered by foreign governments, or offering the minimum rates allowed under the OECD Arrangement. For example, Eximbank not only has failed to offer competitive interest rates, but it has failed to offer competitive sales coverage—setting a maximum of only 65 percent of U.S. content, with another 10 percent if the U.S. provides a matching 10 percent.

The potential conflict between the inferred mandate to be self-sustaining and the Charter mandate to be competitive was dormant as long as low market rates of interest permitted Eximbank to charge competitive rates which were still higher than those at which it could borrow. But, recently, the Bank generally has run a negative spread between the average rate on its loan portfolio and the average rate on its outstanding debt. The combination of high market rates of interest and widespread credit subsidies by foreign government has made it virtually impossible for the Bank to be self-sustaining and offer competitive credit. The conflict threatens the Bank's central purpose of helping to correct disadvantages to U.S. exporters arising from foreign government credit subsidies.

Therefore, we recommend that the Charter clearly cite competitive financing as the Bank's priority. A self-sustaining operation should be an important, but subordinate objective. One possible formula would be to direct the Bank to be self-sustaining, to the extent consistent with its mandate to offer competitive financing. Another would be to direct it to give consideration to the average cost of money to the extent that such consideration does not substantially impair the Bank's ability to offer competitive financing.

Also, the Bank should assure that the varying needs of U.S. exporters are met equitably. The Charter should specify that the Bank should strive to be competitive in all its programs.

Second, mixed financing of U.S. exports by Eximbank and the Agency for International Development (AID) should be authorized explicitly. Mixed financing means the combination, in various ways, of official development assistance, official export credit, and commercial capital to finance U.S. exports. Mixed financing, properly administered, simultaneously serves the negotiating, competitiveness and development assistance objectives of the United States. It can help the United States negotiate more effective international rules to discipline mixed financing subsidies, help protect U.S. exporters from foreign predatory mixed financing, and permit scarce official development dollars to leverage multiples of private or Eximbank credit for development purposes. The Chamber strongly supports the mixed financing authority provided to Eximbank and AID under the title "The Trade and Development Enhancement Act of 1983" in the Eximbank amendment bill introduced by Senator Heinz. The Chamber considers this title to be a priority item in the bill.

To assure the competitiveness of its programs, Eximbank must be prepared to match foreign mixed financing. That is why, in a 1980 report on the constraints on competitive Eximbank financing, the GAO identified the Bank's inability, on its own, to meet the mixed credits offered by other countries as one of the three major reasons the Bank is not competitive. Mixed financing permits the Bank to offer credit terms it generally can not otherwise achieve. In most cases, Eximbank's "best available" credit rate or terms have been inadequate to neutralize foreign mixed financing.

Widespread foreign mixed financing has cost U.S. firms and workers sales and jobs. I am sure that is why the distinguished Chairman of this Subcommittee, Senator Heinz, at a 1981 hearing on his proposed war chest bill, rightly labeled mixed cred-

its "the most insidious practice of export credit competition." Recently, a U.S. firm lost a \$24 million Indonesian order for 24 locomotives to a U.K. firm because of mixed credit financing. Part of a Mexican steel mill project, a contract valued at \$85 million, was lost to a U.K. firm financed by mixed credits. And, West Germans, backed by a mixed credit, took from a U.S. competitor a \$47 million sale of hospital equipment to Venezuela. The committee has heard such reports of sales lost to mixed financing in the past, and there is very reason to fear these losses will continue.

Mixed credit financing has been a problem for U.S. business for some time. A very conservative Commerce Department estimate of the dollar value of OECD mixed credit subsidies, including only cases reported with information about dollar value, during the first ten and a half months of 1982 is about \$1.7 billion. However, based on this estimate, the total figure for the first ten and a half months could be between \$3 and \$3.5 billion, if cases reported with no or incomplete value are included. By another calculation, on the receiving end, Mexico, for example, benefited from some \$1.7 billion in mixed credits between 1977 and November 1982. Brazil got \$1.4 billion, and Egypt received \$1 billion during the same period.

Legislation authorizing mixed financing by the Eximbank and AID also will help the U.S. to negotiate better discipline on these practices than has been achieved. The OECD Arrangement that came into effect on October 15, 1982 made progress, but left several important loopholes. Only mixed credits with a grant element of under 20 percent are prohibited, and advance notification is required only where the grant element is between 20 percent and 25 percent. Also, "parallel" loans by private banks and development agencies, if viewed as unconnected, arguably are not covered.

To be effective, a new agreement must first clearly define the different forms of mixed financing; second, set rules on all forms of mixed financing with a subsidy effect; third, require advance notification on all forms of mixed financing with a grant element of 50 percent or less; fourth, phase out government mixed credits; and fifth, prohibit any mixed financing for the building of those industries whose products are in oversupply worldwide. These objectives are well set out in the negotiating mandate provisions of Senator Heinz's bill.

Finally, mixed financing can multiply resources available for development assistance. The ability to leverage AID dollars for development is particularly valuable at this time of budget stringency. An AID mixed financing program should fund only sales with a development purpose, as provide in Senator Heinz's bill. The program should not draw on funds committed to development assistance and should be administered in a manner consistent with AID's development objectives. Under such conditions, mixed financing can simultaneously serve the U.S. commercial and development objectives, helping to build the vital public support for our important development assistance programs.

Mixed financing should be used defensively, to neutralize foreign subsidies, but not to subsidize bids that would otherwise not be competitive. Nor does mixed financing required higher budget authority for either Eximbank or AID. The Chamber does not advocate additional appropriations for mixed financing, at this time.

Legislation that explicitly authorizes mixed financing is needed, first, to send a strong signal abroad that the U.S. is prepared to neutralize predatory mixed financing; second, to express clearly the will of Congress that the relevant agencies undertake a defensive mixed financing program; and third, to avoid agency inaction based on a concern that Congress might challenge mixed financing operations as improper.

Third, section 1912 of the Eximbank Act should be retained and strengthened. Since the Arrangement provides no penalties, a member country can derogate from it, offering predatory financing with impunity. The purpose of section 1912 was to deter predatory financing of exports into the U.S. domestic market, where there is at least one potential U.S. supplier, by enabling Eximbank to offset foreign subsidies.

The recent Canadian subway car case, involving a subsidized sale by the Canadian based Bombardier Company to New York's Metropolitan Transit Authority illustrates an apparent weakness in section 1912 authority, since an offset was not made available in this clear subsidy case. Countervailing duties authorized by U.S. trade laws are not a substitute for section 1912. Since countervailing duties are applied after the fact, they don't restore to a competitive U.S. bidder the opportunity to win the sale. Matching the predatory financing through a strengthened section 1912 can restore a fair competitive opportunity to a U.S. supplier. Further, strong matching authority warns potential subsidizers that predatory financing does not pay.

We understand concerns that the use of Eximbank funds for sales in the U.S. could deplete the limited amount of funds for sales abroad. But sales lost here due to foreign subsidies are just as unfair and harmful to firms and workers, as sales lost abroad. Why treat them differently? In fact, if we permit subsidized sales to the U.S. market to go unchallenged, there is the danger that the U.S. market, the critical market for many of our best industries, will become the choice target for foreign predatory financing.

Fourth, the Charter now calls for a 9-member advisory committee, broadly representative of business and labor, to advise the Bank on its programs. But, such a committee has not existed for many years. An advisory committee is one way of institutionalizing better communication to Eximbank officials of business considerations in exporting and export financing. It should be formed and directed to meet quarterly.

Fifth, the Charter is not the proper legal instrument for imposing foreign policy controls. By stating this, we do not take a position on the merits of the objectives of each control in the Charter today. Our position is based on management considerations, not substantive judgments. Controls in the Eximbank Charter are redundant and misplaced. Other statutes, such as export control laws, are the proper statutes for authorizing specific foreign policy controls, when and if desired by Congress.

Sixth, Eximbank's Charter and operations should explicitly recognize the expanding role of services in the U.S. economy, and of services exports in U.S. trade. Therefore, in concert with U.S. efforts to extend discipline to international trade in services, including the recent GATT directive to conduct a work program on services, the Eximbank Charter should be modified to authorize explicitly the extension of Eximbank programs to trade in services.

Seventh, the Charter should be renewed for a five year period.

THE OECD ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS— THE SO-CALLED "GENTLEMEN'S AGREEMENT"

After several years of negotiation, in 1974 many of the major exporting countries agreed to limit official export financing subsidies by stating that their official export credit agencies would adhere to minimum interest rates and maximum repayment terms. In 1975 this became known as the "Gentlemen's Agreement." Further refinement of the Agreement produced in April of 1978 a new "Arrangement on Guidelines for Officially-Supported Export Credits," concerning terms, minimum interest rates, and the scope of financing operations. There are 22 participants in the "Gentlemen's Agreement."

Since 1978 there has been further progress on rates and terms. Nonetheless, progress has been slow, and the Arrangement is still riddled with problems. First, the Arrangement does not legally bind participating countries. It provides no penalties for violations, and no means of enforcement. Second, the minimum rates are still fixed, rather than automatically responsive to changes in market rates. Our negotiators are optimistic that a flexible, market-based formula can be achieved in April of this year, but they have been overly optimistic before. Third, the OECD Arrangement only partially restricts the use of "mixed credits," as indicated earlier in my testimony, and does not prohibit cost inflation risk insurance or exchange risk insurance.

The U.S. should be aggressive in its efforts to negotiate an end to official export credit subsidies around the world. Our best interest lies with universal export financing at market rates, terms and conditions. Progress is being made toward this goal. For example, the United States, United Kingdom, France and Germany have reached a common line agreement on financing commercial jet aircraft, with the ultimate goal of adhering to market rates and terms. But we should resist any temptation to be satisfied with half a loaf of progress. The deprivation to our economy could be serious for want of the other half.

The forthcoming Arrangement negotiations present an opportunity to reduce the flaws in the Arrangement. Our negotiators must press for: first, flexible minimum rates geared to the market leading to the elimination of subsidized official export financing within OECD countries; second, dramatic progress in phasing out mixed credits; third, restrictions on cost-inflation risk insurance, and exchange risk insurance along with other unfair advantages permitted our competitors under the present Arrangement. Fourth, sectors such as aircraft, nuclear power generation, and LNG tankers, which are now excluded from the Arrangement, should be brought under a new agreement—one permitting longer maturities justified by the nature of such sales. Fifth, future versions of the Arrangement should include such non-OECD countries as Brazil, South Korea, and Taiwan, which now are using gov-

ernment-supported financing for exports. Finally, best efforts should be made to design means to bind parties to the Arrangement and enforce its provisions.

CONCLUSION

The need to renew the Eximbank's Charter presents an opportunity to make the Bank more responsive to the realities of world trade today. Most importantly, the Bank must offer U.S. exporters competitive terms, and offset the mixed financing available to U.S. competitors. Bank terms and programs should respond to changing financial conditions, trade patterns and market demand. Close communication with American business is critical to effective Bank operations. Finally, Eximbank programs should help advance the U.S. objective of eliminating export credit subsidies worldwide.

A modern and vital Eximbank can help U.S. business compete on a market basis worldwide. In this way, the Bank benefits the entire U.S. economy, supporting jobs, adding to the GNP, and increasing the tax revenue base, not only of the federal government, but of state and local governments, as well.

By strengthening the Eximbank, we can signal our foreign competition that this nation fully recognizes the importance of international trade and the realities of the marketplace, and is prepared to meet the challenge of world competition. We can put ourselves in a position to prove that, when it comes to trade, the United States means business.

Senator LAUTENBERG. Thank you, Mr. Sohn. Mrs. Feiner?

Dr. FEINER. Senator, thank you very much for inviting the Chamber to testify today. The Chamber's position I think has been stated.

Senator LAUTENBERG. Mr. Vaughan, I don't want to put pressure on, you take the time that you need. If you can keep it to less than 10 minutes I would appreciate it.

STATEMENT OF ROBERT VAUGHAN, VICE PRESIDENT, FINANCE, CONAIR, INC., FRANKLIN, PA., REPRESENTING THE SOCIETY OF THE PLASTICS INDUSTRY

Mr. VAUGHAN. Good morning. I am Robert Vaughan, vice president of Finance for Conair, Inc., a Franklin, Pa., company that produces auxiliary equipment and systems for processors of plastics products. I welcome the opportunity to appear this morning before the subcommittee to offer the views of my company and its trade association, The Society of the Plastics Industry, concerning the re-chartering of the Export-Import Bank. I have submitted a written statement that elaborates on the points I will briefly make and I ask that it be made part of the hearing record.

SPI'S 1200 MEMBERS

SIP's 1,200 corporate members include producers of plastics raw materials, firms that make molds, companies that fabricate finished products, and manufacturers of machinery and auxiliary equipment, such as Conair. The companies in this latter category, organized within the association as the machinery division, have a long history of actively seeking business abroad.

FINANCING MORE ATTRACTIVE OVERSEAS

Conair, which was organized in 1955, has grown over the past decade from sales of \$3 million and 40 employees in 1971 to 1982 sales of \$39 million and 550 employees. Overseas sales have played a major role in that growth, accounting for 37 percent of our gross last year. But, most of those sales were made through the subsidi-

ary we established in 1975 in London. We increasingly find that in order to compete for orders abroad, we must utilize our United Kingdom Co., because of the more attractive export financing arrangements we can obtain there rather than in the United States. Permit me to cite a recent example.

Last October, Conair's Franklin, Pa. manufacturing facility was unable to fill a \$750,000 order for a customer in La Guira, Venezuela. The business was to provide auxiliary equipment for a new plastics plant in that country. Principal competition for the sale came from machinery companies in France, Germany, Japan, and the United Kingdom. In each instance, the terms available from these foreign competitors were more attractive than those available from the Eximbank.

Though we worked with an export trading company in New York to assemble a larger package involving other U.S. suppliers to the processing plant project, we could not obtain competitive U.S. financing. However, we were able to salvage the Conair portion of the order by utilizing our United Kingdom manufacturing facility and financing the sale through the U.K.'s Export Credit Guarantee Department. Although the additional shipping expense for sending the order from London rather than Franklin was nearly \$40,000, it was more than off-set by the interest savings available. The ECGD provided 10½ percent financing over 3 years, whereas the Eximbank package would have been in the 12 percent to 13 percent range for 3 years.

This is not an isolated example, but unfortunately a typical experience for plastics processing machinery and equipment manufacturers when they seek to rely upon the Eximbank programs for financing their export sales. My written statement recounts other experiences in lost sales by SPI machinery division companies.

Last October, several of us from the machinery division visited with Export-Import Bank officials to discuss our difficulty in being competitive in export markets because of inadequate financing. We were told that the Bank is doing a better job and than it is more competitive. We are aware that there has been progress, but the fact remains that companies in our industry that seek to use the Bank cannot depend on it being competitive.

Making export sales is not like running a race. There are no prizes given for finishing second or third. Either we are competitive or we are not!

We have no specific suggestions for changes in the current Eximbank law, but we do have some thoughts of directions that should be pursued in any legislation approved by Congress:

One, the Congress should enact more explicit language than exists in current law to direct the Bank to be more flexible in its response to financing competition abroad.

Two, most plastics machinery and equipment sales are usually in amounts far less than \$1 million. More creative programs are needed to address the financing needs of small and medium-size companies involved in such sales.

Three, it takes far too long to get a commitment from Eximbank. Sales are regularly lost because of this. The answer may not be legislative, but the impact of the problem upon export financing competitiveness is serious enough to merit attention from Congress.

Four, when meeting with Bank officials, we were told if we improved our gathering of credit information about potential customers, we could shorten the commitment time from the Bank. Why can't the Bank work directly with the commercial attachés of the embassies to develop a good file on prospective customers. This is how the governments of our competitors operate and it obviously works for them.

My home county of Venango in northwest Pennsylvania had a January jobless rate of 23.1 percent. There are many factors contributing to that circumstance, but one of them certainly is the difficulty companies like Conair have had in competing for export sales. In 1982, 53 of our company's domestic jobs depended upon export. This year, that figure has fallen to 15!

The old axiom, "if it ain't broke, don't fix it" has a corollary. If it is broken or if it doesn't work, fix it! The Export-Import Bank is not working as well as it could or should work.

We are not asking for the creation of export subsidies such as those typical of some of our trading partners. We ask, though, that the interest rates and terms available through the Eximbank, as well as that agency's will to be truly competitive, equal that of other participants in world markets. We urge Congress to fix it and help American industry win a few races for a change.

[Complete statement follows:]

STATEMENT OF ROBERT J. VAUGHAN, CONAIR, INC.

I am Robert Vaughan, Vice President, Finance, Conair, Inc. of Franklin, Pennsylvania. My testimony on the rechartering of the Export-Import Bank is presented on behalf of my company and the Machinery Division of The Society of the Plastics Industry, Inc. SPI is the principal trade association for the plastics industry. The industry has grown over the past several decades to become one of the nation's principal providers of materials and goods. A measure of our size is the fact that by 1979, on a volume basis (cubic inches), plastics had surpassed steel in U.S. production. SPI's 1,200 corporate members include the producers of plastics raw materials (known as resin), the firms that make molds for finished products, the companies that fabricate those finished products and the manufacturers of machinery and auxiliary equipment required to process those finished plastics products.

Conair is a manufacturer of auxiliary equipment and systems for plastics processors, and a member of SPI's Machinery Division. Our products include storage silos and handling systems for plastics raw materials, coloring and blending equipment, machines for removing and handling finished goods after they are produced, scrap granulators, and heat transfer systems. A brochure describing these and other Conair products is Attachment A. Our company was founded in 1955 and its growth has largely paralleled that of the industry for which we provide equipment. In 1971, we had \$3.1 million in sales, 40 employees and no export business. By 1979, we had total sales of \$31.5 million, 402 employees, a manufacturing facility in London, England that produced \$8.3 million in sales, and we exported just under \$1 million in goods. In 1982, Conair's total sales were \$38.9 million, with over \$3.6 million resulting from exports from our U.S. manufacturing facilities. Total employment exceeded 550. Our export sales level supported work for 53 Conair employees, 13 percent of our domestic work force. Further information on Conair's growth in sales, employees and exports is presented in Attachment B.

The recession has reversed the growth of our company in 1983, with sales projected to fall below \$30 million and domestic employment to be nearly cut in half. The largest drop in our projections for the current fiscal year (ending April 30, 1983), though, are in the export sales area. Exports are expected to be down 57 percent, compared to sales reductions in our domestic markets and through our United Kingdom subsidiary of 16 percent and 31 percent, respectively. While there were 53 Conair jobs in 1982 dependent upon export sales, there are only 15 in 1983. I believe a principal contributing factor to this downturn is the increasing difficulty we have had in obtaining competitive export financing through the Export-Import Bank of the United States.

The ability of Conair to sell in foreign markets is one of the principal components of the growth our company has enjoyed. Our success in making sales to customers in South America, Australia, Africa, and even Japan and the European Community is a demonstration that our products can compete in quality and performance. However, as the plastics processing industry grows worldwide, particularly in industrialized oil-producing countries such as Venezuela, Nigeria, and Saudi Arabia, the competition to sell machinery and auxiliary equipment to new plastics processors becomes more intense. Our competitors from Japan, West Germany, Italy, the United Kingdom and France are also capable of producing quality products. And, they can obtain in most cases superior financing for customers. The inability of Conair and other SPI Machinery Division companies to obtain competitive assistance in financing exports through Eximbank is resulting in lost sales. I offer the following examples:

(1) Conair's Franklin, Pennsylvania manufacturing facility was unable to fill a \$750,000 order for a customer in La Guira, Venezuela last October. The business was to provide auxiliary equipment for a new plastics plant in that country. Principal competition for the sale came from machinery companies in France, Germany, Japan and the United Kingdom. In each instance, the terms available from these foreign competitors were more attractive than those available from the Eximbank. Though we worked with an export trading company in New York to assemble a larger package involving other U.S. suppliers to the processing plant project, we could not obtain competitive U.S. financing. However, Conair was able to salvage its portion of the order by utilizing its United Kingdom manufacturing facility and financing the sale through the U.K.'s Export Credit Guarantee Department. The additional shipping expense for sending the order from London rather than Franklin was nearly \$40,000, but it was more than off-set by the interest savings available. The ECGD provided 10½ percent financing over three years, whereas the Eximbank package would have been in the 12-13 percent range for three years.

The remaining examples are drawn from experiences of other SPI Machinery Division members:

(2) In 1981, Cincinnati Milacron Company quoted an injection molding equipment bid for a Mexican customer. A West German competitor offered an interest rate 6½ percent lower than Milacron could, thus receiving the order. Furthermore, the West German company didn't require the first payment until twelve months after start-up, while the U.S. arrangement, under guidelines of the Foreign Credit Insurance Association, required the first payment to be due 6 months after date of shipment.

(3) Cincinnati Milacron lost a 1981 injection molding machine sale to a customer in Chile. The Italian competitor that received the order was able to offer an annual interest rate 5½ percent lower than the rate available through U.S. sources. Repayment terms through Italian finance sources were for seven years plus a one-year grace period on the first payment, while U.S. terms were for five years with no grace period. Also, the Italians did not require payment of financing fees.

(4) The HPM Corp. of Mount Gilead, Ohio lost a 1980 sale to a Venezuelan customer for three machines valued at approximately \$800,000. The company experienced considerable difficulty in quoting terms because of Eximbank delays. Although the customer waited on the HPM financing package, the order eventually went to an Italian company which was able to offer 9½ percent rate compared to the then 14½ percent rate available from U.S. sources.

(5) HPM lost a \$600,000 sale in Chile, again to an Italian competitor, because it could not obtain a timely answer on financing. The potential customer indicated it preferred to buy U.S. equipment. But, when HPM was finally able to present its U.S. financing package, the customer indicated it had not been able to wait longer for a U.S. financing commitment and had placed the order with the Italian company.

Last October, I was part of a delegation representing SPI Machinery Division member companies that met with Export-Import Bank officials to discuss the deepening competitive dilemma in which we are finding ourselves as we seek to export our products. We related examples like the foregoing. The Eximbank people described a number of the recent efforts the Bank has made to improve its competitiveness and its ability to serve smaller sales, such as the new medium-term program. We were told that U.S. efforts to convince our trading partners to raise the interest rates of their government-supported financing programs and an easing of U.S. interest rates were improving competitiveness. When we expressed concerns about the length of time it usually takes to obtain a financing commitment, we were told that the Bank will never be as good as its competitors in giving quick answers on financing proposals. We were further advised that one way the Eximbank re-

sponse time could be shortened is for U.S. companies applying for assistance to do a better job of checking credit worthiness.

We are aware there have been attempts at progress by the Eximbank to improve its competitiveness. We are also aware that factors in addition to financing rates and terms, such as the value of the dollar, are influencing the competitiveness problem. However, making export sales is not like running a race. There are no prizes given for finishing 2nd or 3rd. Either we are competitive or we are not. From our experience, the Export-Import Bank programs are not competitive with their foreign counterparts. Consequently, we are unable to be competitive. Congress, in considering what changes should be made in the Bank's charter, must address itself to that reality.

We have no specific statutory language to suggest for enactment, but we do have some thoughts of directions that should be pursued in any Eximbank legislation approved by the Congress:

(1) The present Bank charter, as enacted in 1945, directs it to "provide guarantees, insurance and extensions of credit at rates and on terms and other conditions which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters." Clearly, this charge is not being fulfilled. The Congress should enact more explicit language to direct the Bank to be more flexible in its response to financing competition from abroad.

(2) The vast majority of export sales sought by SPI Machinery Division companies are less than \$1 million in value and are sometimes less than \$100,000. More creative programs are needed to address the financing needs of small and medium-size companies involved in such sales. Setting aside a specific dollar figure for such sales is not enough if the nature of the available financing package does not fit the customer.

(3) It takes far too long to get a financing commitment from Eximbank. As noted in some examples cited above, this circumstance alone, regardless of the interest rates, the terms, or the value of the dollar, can result in lost sales. We are concerned that Bank officials believe little can be done to match the turn-around time of its competitors. Perhaps the solution to this dilemma is not legislative, but managerial. Nonetheless, its impact upon export financing competitiveness is serious enough to warrant attention from the Congress.

(4) Companies applying for Eximbank assistance in making a sale are expected to provide appropriate credit information about their prospective customers. For small and medium-size companies that do not have an extensive system of representatives abroad, this builds delays into the process of getting a commitment from the Bank. For many of us, our source for such information is the commercial attaché at the U.S. embassy in the customer's country. Our experience is that the embassy files on such companies are frequently out of date or nonexistent. Why can't U.S. trade officials abroad have better customer information and why can't the Eximbank deal directly with the attachés or the International Trade Administration to facilitate gathering needed information? This is how the banks of our competitors' countries operate. While this problem may be beyond the responsibility of this subcommittee, it bears a direct relationship to the Eximbank's inability to help small and medium-size companies be competitive.

One of my Machinery Division colleagues observed during our October meeting with the Export-Import Bank officials that in today's world of international trade, U.S. companies do not really compete with French companies, West German companies, and Japanese companies. Instead, we are competing with the governments of France, West Germany and Japan. U.S. trade policy and programs must begin to reflect this reality. Ideally, it may be preferable for other countries to raise their interest rates, to stop subsidizing exports, and to play by a higher standard of rules. Until that time occurs, though, the U.S. must play by the rules of trade that exist, not as it would wish them to be.

My home county of Venango in northwest Pennsylvania has a January jobless rate of 23.1 percent (see Attachment C). There are many factors contributing to that circumstance, but one of them certainly is the difficulty companies like Conair have had in competing for export sales. The old axiom, "if it ain't broke, don't fix it" has a corollary. If it is broken or if it doesn't work, fix it! The Export-Import Bank is not working as well as it could or should work.

We are not asking for the creation of export subsidies such as those typical of some of our trading partners. We ask, though, that the interest rates and terms available through the Eximbank, as well as the agency's will to be truly competitive, equal that of other participants in world markets. We urge Congress to fix it and help American industry win a few races for a change.

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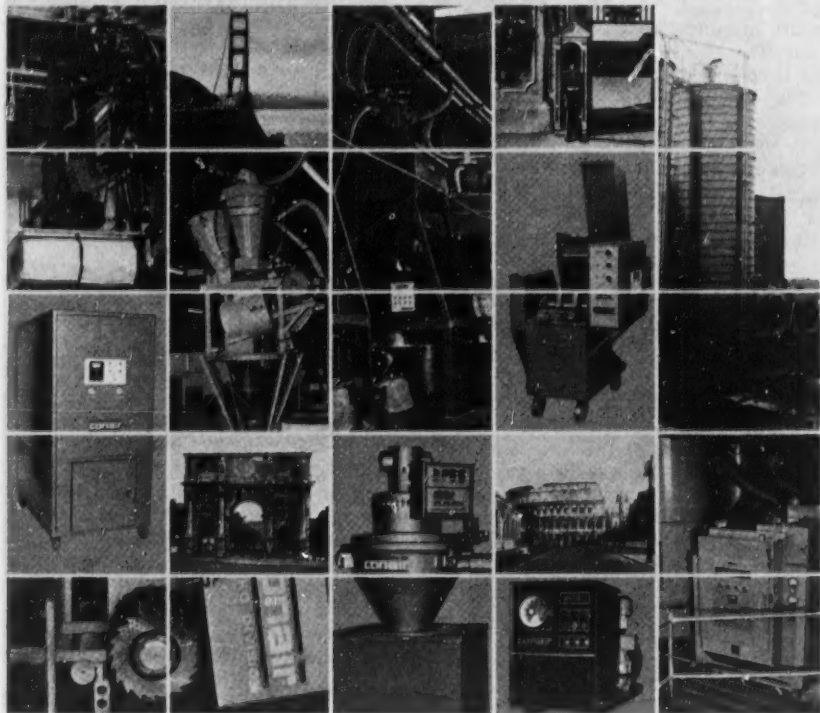
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A Profile of

Auxiliary Equipment and Systems

for Plastics Processors

CONAIR, INC., USA / CONAIR JETRO DIVISION, USA / CONAIR CANADA, CANADA
CONAIR CHURCHILL, ENGLAND / CONAIR DO BRASIL, BRAZIL / CONAIR MEXICANA, MEXICO



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Conair Auxiliary Equipment

pay for themselves by reducing waste, increasing production

At Conair, we're specialists. We concentrate all of our resources on helping plastics processors save money through better management of raw materials, process cooling fluids and finished parts.

Our ability to offer a wide range of innovative equipment is vital to processors seeking the quickest possible return on their investment. Since Conair manufactures just about everything used for today's automated plastics processing plant, components fit together and work together to deliver smooth, reliable performance ... performance that is fully guaranteed!



Bulk Flow Systems

- ☐ Engineered Systems
- ☐ Welded Storage Silos
- ☐ Spiral Storage Silos
- ☐ Railcar Unloading
- ☐ Cycling Pressure Unloaders
- ☐ Complete Installation
- ☐ Pressure Systems
- ☐ Vacuum Pressure Systems



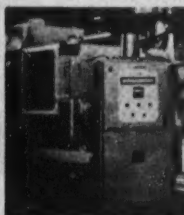
Vacuum Loading

- ☐ MicroLine Loaders
- ☐ Pellet Loaders
- ☐ Gemini Powder Loaders
- ☐ Ratio Loaders
- ☐ Integral Motor Loaders
- ☐ Metal Separators
- ☐ Selectronic 2 Loaders and Systems
- ☐ Container Fillers



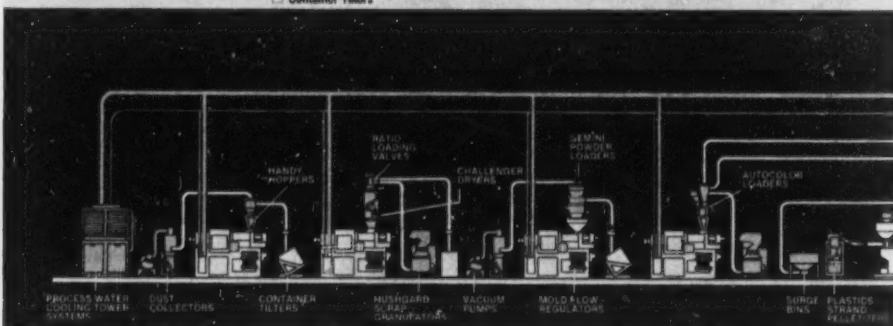
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- ☐ Metering Blenders
- ☐ Spectrum Liquid Color System
- ☐ Intermixers
- ☐ Additive Metering Feeders
- ☐ Drum Tumblers



Dehumidified Drying

- ☐ Hot Air Dryers
- ☐ MicroLine Dryers
- ☐ Challenger Dryers
- ☐ Dehumidifying Dryers
- ☐ Drying Hoppers
- ☐ High-Heat Dryers
- ☐ DriMeter Systems (P.E.T.)
- ☐ P.E.T. Crystallizers



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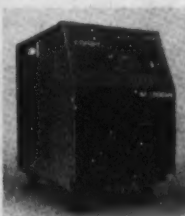
Parts Removal and Handling

- ☐ Robotic Parts Removal
- ☐ Part Pickers
- ☐ Belt Conveyors
- ☐ Post-Molding Systems
- ☐ Stacking, Orienting Fixtures



Scrap Granulating

- ☐ Huskhard Granulators
- ☐ Auger Granulators
- ☐ Bottle Granulators
- ☐ Film Granulators



Heat Transfer

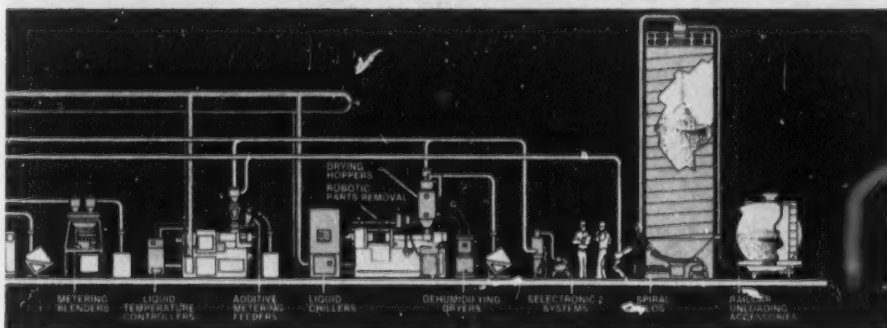
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- ☐ Portable Chillers
- ☐ Central Chillers
- ☐ Heat Recovery Systems
- ☐ Cooling Towers
- ☐ Water Management Systems
- ☐ Mold Flow Regulators



Strand Pelletizing*

- ☐ Strand Pelletizers
- ☐ Cartridge Pelletizers
- ☐ Strand Control Devices

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Part 10

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ATTACHMENT B

March 17, 1983

CONAIR, INC.

Conair, Inc., a small manufacturing company located in Franklin, Pennsylvania.
Formed in 1955.

	Employees	
	May 1, 1982	May 15, 1983
Has manufacturing facilities at:		
Franklin, PA	351	169
Bay City, Michigan	55	42
London, England (U.K.)	150	138
Monterrey, Mexico	15	12
Has sales corporations in:		
Barcelona, Spain	2	2
Sao Paulo, Brasil	2	2

(\$000)	Fiscal Year Ended April 30,					Estimated
	1971	1979	1980	1981	1982	1983
Sales from U.S.						
Domestic	\$ 3,158	22,246	29,239	25,142	24,324	20,290
Export	-	925	2,018	2,638	3,666	1,550
Total U.S.	\$ 3,158	23,171	31,257	27,780	27,990	21,840
U.K.	-	8,353	9,911	10,100	10,900	7,460
Total Conair	\$ 3,158	31,524	41,168	37,880	38,890	29,300

Employees:						
U.S.	40	290	306	381	406	211
U.K.	-	112	125	140	150	138

Sales Per Employee						
U.S.	\$78,950	79,900	102,150	72,900	68,950	103,500
U.K.	-	74,500	79,300	72,100	72,600	54,100

Employees supported by Export Sales	0	12	22	36	53	15
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Auxiliary Equipment and Systems for the Plastics Industry



County jobless rate soars

The county's economic climate continues to reel from the effects of the recession with the local jobless rate posted at 23.7 percent in figures released this morning, up a full 2.1 percent from December's record 21.6 percent.

Bob Rice, manager of the state Job Service office in Oil City, confirmed the bad news today, noting while 27,806 Venango Countians are employed, 8,800 are jobless.

A ray of hope was evident at the state level, however, where figures compiled by the Associated Press indicated unemployment actually declined four-tenths of one percent, to 13.2 percent in February. The national jobless rate stood steady at 10.4 percent.

For the first time in months, claims for unemployment in the manufacturing jobs sector declined significantly, by 23,000, with 10,000 of them in the

basic steel industry. This is considered a good sign for Venango County, where jobs in manufacturing have been particularly hard-hit.

State-wide, 716,000 Pennsylvanians are jobless, down from 743,000 in January.

Pennsylvania ranks fourth in unemployment behind the states of Michigan, 14.8 percent; Ohio, 13.6, and Illinois at 13.5 percent.

A sub-committee of the U.S. House of Representatives recently acted favorably on another 10-week extension of unemployment benefits for furloughed workers in states most adversely affected by the recession. Rice explained while his staff is tracking progress of the extension bill, its future is not yet assured. Many of the individuals signing up for jobless benefits here in Venango County are already using such extensions.

Senator LAUTENBERG. Thank you, Mr. Vaughan. Your company's success suggests that you're not doing badly under the present operating conditions, but that's not a fair thing to say in isolation because I once complained to a major competitor that our company was being stifled by the size of their organization and our inability to gain access to the market. He looked at our balance sheet and said, "Gee, you've had an excellent record." And I said, "Who are you to say what is the standard of excellence?" That could be your response to me.

SUPPORT A FREE MARKETPLACE

I was interested in your testimony, Mr. Sohn. You constantly make reference to the fact that we ought to support a free marketplace and yet I get the feeling that as we try to change the mandate for the Eximbank, we're essentially getting into a nonfree, nonmarket condition, doing very much the same things that we object to by our trading partners. In the final analysis, don't we invite more of the kind of thing that you don't like to see? I think your reference was to more discipline in the marketplace, that we should negotiate more discipline in the marketplace. Isn't this going to restrict that?

Mr. SOHN. My basic contention is that you cannot negotiate from weakness. I hate to use the cliché, but what we are doing is similar to unilateral disarmament in trade. There would be no progress in the elimination of export subsidies if we don't have programs to counter the subsidies of our trading competitors.

Bear in mind that America is still the strongest economic power in the world, but we are somehow embarrassed to use our power. It may go back to the psychology of the Marshall plan, but there is a basic embarrassment to using the economic power of this country. If we sought to utilize it on a competitive basis—and I'm not saying that the Eximbank should match every bloody sale out there—what I am saying is the programs must be in an overall sense competitive. If we show our trading partners we mean business and we want to eliminate the subsidies and the way we're going to go about it is to match and utilize the economic strength of this country, which is a hell of a lot greater than our competitors, then we can bring some discipline to bear and start eliminating these subsidies.

Senator LAUTENBERG. Again, I come from the business community. As a matter of fact, I worked with Mr. Hennessy from United Technologies on the board of my company in New Jersey. I don't know whether you ever worked with him?

Mr. SOHN. Yes, I worked with him.

Senator LAUTENBERG. He was on my board. Can you imagine chairing a meeting with him as a member of the board? He's a strong CEO and a very good friend for many years. So I support the free marketplace, the American advantage, our technology, the economic strength of our country—all of those things go very well with me. I'm for supporting our export trade as much as we can do it.

I am concerned, however, that we are not focusing on the principal reasons for the disadvantages that we're suffering. You perhaps

noticed my smile when you said "strength through"—what was the expression you used—because I think I heard someone on the radio say that last night—negotiations through strength—and again, I think we have to be very careful as we tinker with these things.

You talked about the Eximbank and AID aggressively pursuing the mixed credit approach. Again, won't this just get the same kind of response from abroad?

Mr. SOHN. No. Our competitors abroad have been utilizing mixed credits for years in decided numbers that are now in the billions. From all indications the trend toward mixed credits is increasing. I just spent last week in London and in the Financial Times there was an article about the British Government supplying a 64 million pound mixed credit loan to Egypt. What they were doing was competing with the French. It's consistently going on. I don't know if there was an American bid on that transaction or not. But America doesn't have the program. We are consistently losing sales because of mixed credits and mixed credits, at least in my estimation, should be deemed as a form of predatory financing.

CONTINUES TO LOSE SALES

Are we going to continue to lose these sales, continue to lose the tax benefits from getting these sales from the jobs that are involved, etc., because of a practice of a predatory nature by our trading partners? This trend will continue by our trading partners as long as they know America is not prepared to match and they will continue to take away jobs. My friend, Mr. Trammell, and his industry perceive the mixed credits to a much better extent that I have in United Technologies because of the product, but I know it exists—it's growing in world trade. United Technologies and other corporations in this country are proud of the product they produce. We are willing to compete with anyone on fair commercial terms. You heard Mr. McMillan from Douglas, his aircraft and Boeing's aircraft are among the finest in the world. They will compete with Airbus any day in the week on commercial terms, but they cannot compete when they're up against subsidies that cannot be matched on our side of the ocean. We're just going to lose sales and we're going to erode our technological base and increase the cost of our products if we cannot maintain our competitive edge.

Mr. TRAMMELL. Mr. Chairman, to break in on Steve, there was an occasion reported in the press in the OECD rate negotiations of last summer where one of the French negotiators haughtily said to the press, "Why, of course, we are not afraid of the United States. You have no teeth."

Senator LAUTENBERG. Well, based on the way their economy is going and our economy is going, neither one is winning any prizes. But I like ours a lot better than theirs. They have a very strong government policy in business development. Look at the computer section. I don't know whether you're familiar with that, but a friend of mine, a Frenchman, has had a computer coordinating business there for all of the computer activities in France. They are trying to get them under one umbrella to make sure that everybody knows what the other is doing. Meanwhile, they're still

not competitive. So, their reference to our toothlessness doesn't scare me an awful lot.

FOREIGN LENDERS

Mr. Trammell, I notice that your reference to the Kellogg piece of business in Indonesia and perhaps there's something I don't understand here, but they were able to put together the financing package using foreign lenders. Am I correct?

Mr. TRAMMELL. Foreign support credit agencies, yes.

Senator LAUTENBERG. Why isn't that a viable alternative if it's available to support the credit requirements?

Mr. TRAMMELL. Mr. Chairman, the point is that the equipment for this \$200 million project will not be bought in the United States. The inability of Eximbank to put forward a competitive package, a package which would have kept our manufacturers in the race with manufacturers from these other countries, took them off the board—I don't know if in Chairman Draper's estimation of how much recent business we had lost he took this particular project into consideration. I suspect not. But here, in one shot, is well over \$100 million of U.S. exports that will not be there.

Senator LAUTENBERG. Are you talking about the Kellogg example?

Mr. TRAMMELL. Yes, sir.

Senator LAUTENBERG. Was that not American business opportunity that was developed using foreign lenders?

Mr. TRAMMELL. In a job of this nature for an engineering construction company, our total billings are about 10 percent of the total value of the project. The rest of the billings are local infrastructure costs often supported by mixed credits from other countries, and hardware sales where we have no control over who is selected. We make our recommendations and the client accepts them. In this particular job and the Norwegian job I mentioned to you, there will be no recommendations for U.S. hardware suppliers except on a very limited number of highly technically qualified pieces of equipment such as processing control computers.

Senator LAUTENBERG. Your testimony, all of you, has been excellent and I appreciate your recommendations. Is there anything else that you'd like to offer before we close the meeting? Dr. Feiner.

Dr. FEINER. I'd like to make a comment on the question you asked as to whether what we are proposing would get the United States into the same business of government intervention in markets as our foreign competitors.

First, let me say that the last thing the U.S. Chamber of Commerce would like to see would be the U.S. Government getting into the business of managing markets and developing industries. Quite the contrary, the Chambers major goal on export financing is to return markets to a free competition basis. However, we recognize that that free competition is an ideal and not a reality. Therefore, in the interim, to help us reach that ideal, we believe that Eximbank, should act to neutralize market distortions.

We do not advocate taking the offensive in predatory financing. We advocate only a defensive approach. And that defensive approach underlies our position on mixed credits.

POSITIVE TRADE POLICY

A final word I would like to add is that at a time when there is rising sentiment in the United States in favor of protecting our markets by restricting foreign access—a trend that would hurt our economy—it's very important that we formulate a positive trade policy, that we design a positive trade program. It's far preferable to have an Eximbank that is aggressive in promoting U.S. exports, able to match foreign subsidies, foreign unfair competition, and restore competition to comparative advantage, rather than to close off U.S. markets, insulate them, and reduce world trade. That's why this is the proper approach to what's going on in the world today.

Senator LAUTENBERG. OK. What we've run into I'm afraid is a problem of definition.

AGGRESSIVE TRADE POLICY

Yes, I want to see us with an aggressive trade policy. I really do. But I think we ought to call a spade a spade, and say that what we want to do is build ourselves a good shield, whether it be through export credit subsidies or other—and maybe fess up that that's what we're trying to achieve. I think that we are, very frankly, taking the right track here with Senator Heinz' bill. I'm pleased to see that witness after witness with perhaps one exception very clearly wants the mandate more strictly identified and more strictly defined. Let's go out and get that business. I hope that we are not spilling over into an area that causes reaction on the other side among a conglomeration of trading partners that have enormous strengths when they combine their resource—banking and production, and so forth.

So anyway, again, let me conclude by concluding and say thank you very, very much for being here today and thank you for your testimony.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

[Additional material supplied for the record follows:]

The Society of the
Plastics Industry, Inc.



605 14th Street, N.W.
7th Floor
Washington, D.C. 20005
(202) 628-0270

April 27, 1983

Honorable John Heinz, Chairman
Subcommittee on International Finance
and Monetary Policy
Senate Banking, Housing and
Urban Affairs Committee
SD-534 Dirksen Senate Office Building
Washington, D.C. 20510

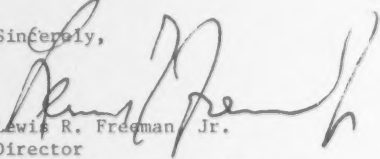
Dear Mr. Chairman:

The views of The Society of the Plastics Industry, Inc. on reauthorization of the Export-Import Bank were presented to your Subcommittee last month by Robert Vaughan, Vice President of Conair, Inc. in Franklin, PA. Although Mr. Vaughan's testimony did not specifically address your bill on the subject, S. 869, the association has some thoughts on it as the Subcommittee commences mark-up tomorrow morning.

First, SPI is supportive of the explicit language your proposal would put into the law to strengthen the mandate that the Eximbank be more competitive. This is consistent with views expressed by Mr. Vaughan before the Subcommittee. Second, the plastics industry is most interested in the Bank becoming more responsive to the export financing needs of small and medium-size companies such as those that make plastics processing machinery. It would be helpful if the Bank Advisory Committee created by Section 102 of S. 869 included at least one representative from small business. SPI recommends language to that effect be incorporated in the section.

The SPI appreciated the opportunity to present its views to the Subcommittee on International Finance and Monetary Policy and will follow with interest the progress of S. 869.

Sincerely,



Lewis R. Freeman, Jr.
Director
Federal Government Affairs

LRF/clw

cc: Members of the Senate Subcommittee on International Finance and
Monetary Policy

STATEMENT OF
AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.
CONCERNING EXTENSION OF THE EXPORT-IMPORT BANK CHARTER
SUBMITTED TO
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

April 15, 1983

The Aerospace Industries Association of America, Inc. (AIA), the trade association representing the nation's major manufacturers of commercial, military, and business aircraft, spacecraft, aircraft engines, helicopters and related components and equipment, appreciates the opportunity to state its support for extension of the Export-Import Bank's charter to September 30, 1988, and to offer recommendations on amendments to strengthen this important and cost-effective trade strategy component.

In 1982, the U. S. saw a record merchandise trade deficit of \$44 billion, and some predictions for 1983 involve \$80 billion worth of red ink. Such numbers, dismal as they may be, have had one positive side effect: Both our government officials and the population at large are finally coming to terms with increased U. S. dependence on trade. Today, more than 12 percent of our gross national product is accounted for by trade with other countries. U. S. exports doubled in the 1970's, and government statistics indicate that 80 percent of the jobs created in this country between 1977 and 1980 were due to increased exports. The implications of these crucial economic links between the U. S. and the rest of the world are sobering, but this awareness -- a key element in the President's recent State of the Union address -- has not eluded our trading partners. Driven home in the wake of a global recession, the cold facts of economic survival have exacerbated the competition for increased market share and export sales.

The aerospace industry, as the nation's pre-eminent manufacturing exporter, has long had an appreciation of the reality of worldwide economic interdependence. Perhaps to a unique degree, aerospace is a global industry that must have a world market. The magnitude of investment required for the development and production of commercial transports, and the high unit prices of aircraft, dictate the need for a market that transcends domestic boundaries. As an illustration, the approximate current costs for a 747 and a DC-10 are \$85 million and \$60 million, respectively; an airline purchase of five units with supporting spares and equipment, thus requires an investment approaching half a billion dollars.

Surveys conducted last year indicated that 60 percent of total transport aircraft sales during the 1982-1990 time frame will be made to customers outside the U. S. Capturing a significant portion of that projected market will depend to a large degree upon our ability to enhance the competitiveness of our products, primarily by incorporating the latest available technology. And we are guaranteed a run for our money in our attempts to do so. Our foreign competitors have no less an appreciation of the benefits of export trade, and they have not been reluctant to target certain industries, notably aerospace, for increased R&D investment and capitalization. Conversely, U. S. investment in aeronautical R&D as a percentage of sales has been dropping steadily during the last decade.

Sensitivity to the need for strengthening the industry's competitive and world trade position has been further sharpened in the wake of year-end analyses of U. S. aerospace sales performance worldwide. After record-setting levels of exports and trade balances in each year since 1977, the aerospace industry's international trade activity reversed itself in 1982. Total exports dropped from \$17.6 billion in 1981 to \$15.2 billion in 1982. The

biggest decline was in civil sales, which decreased from a 1981 level of \$13.3 billion to \$10 billion in 1982. This lower volume of export sales in turn caused the aerospace trade surplus to slip well below 1980 and 1981 levels, closing out 1982 at \$10.7 billion.

Such a downturn in the industry's export activity has reduced the gross national product and diminished our balance of trade, and it has meant lost employment opportunities. As the 98th Congress addresses the jobs issue, it is important to point out that the jobs created as a consequence of aircraft export sales are not limited to an airframe or engine manufacturer's assembly plants, but are spread geographically throughout the thousands of small and medium-sized businesses which constitute the subcontractor and supplier base. This extensive network of suppliers makes a number of important contributions to the strengthening of the U. S. aerospace industry and to our international competitiveness -- in terms of people, skills, technology and research capabilities. Accordingly, AIA last year requested Chase Econometrics/Interactive Data Corporation to perform an independent study on the effect of aircraft exports on the U. S. economy. That study, attached for your review, was designed to evaluate, conservatively, the effect of an increase in exports through direct benefits, multiplier effects, government budget considerations and follow-on sales for spare parts and fleet expansion.

The Chase study concluded that \$1 billion in initial aircraft sales and the resulting follow-on sales would add 44,000 full-time equivalent (FTE) man-years employment in the aerospace industry. Through subcontracting and the multiplier effects which would be felt in other areas of the economy, there would be a total gain of 148,000 FTE man-years during the 1982-1990 time period. This \$1 billion in aircraft exports and its associated job creation impacts government receipts and expenditures through the increased collection of personal and corporate income taxes, social security receipts and state and

local receipts and reduced payment of unemployment compensation benefits; the overall Federal budget deficit would decrease (Chase estimated that such a decrease would amount to \$3.7 billion between 1982-1990), subsequently lowering government interest expenses.

While the global recession and the strength of the dollar in world currency markets since 1980 have played a part in the aerospace industry's weakened performance, an even more critical factor has been the changed international marketplace for commercial aircraft. Our competitors -- and their governments -- have acted to reap the benefits associated with a larger international sales volume. U. S. manufacturers are confronted with competition from foreign manufacturers who have combined technological equivalence with aggressive marketing and government support strategies, and who are owned or backed in varying degrees by their governments. The European Airbus consortium, which has captured a significant share of the market for widebodied jets, is the best example of this relationship. Further, the market for smaller commuter and business aircraft shows the strong presence of Brazil, Canada, Northern Ireland and others, while France, Germany, the United Kingdom, and recently Japan, are all effective competitors in the helicopter market. And the role of foreign governments does not end at the manufacturing level -- approximately 40 percent of the world aircraft market is now controlled by government-owned airlines. It goes without saying that U. S. companies step onto the playing field with a decided disadvantage when government-backed manufacturers are selling to government-backed airlines.

AIA's greatest concern with foreign government/foreign manufacturer relationships centers on our competitors' use of government subsidized financing mechanisms. That trade weapon, we believe, can only be countered by a strengthened Eximbank. The key to comprehending the gravity of the threat posed by foreign subsidized export financing lies in understanding that the

economies and national prestige of the parent countries of our largest and most effective rival -- Airbus Industrie -- have been partly tied to the success of their aeronautical industries. They are willing to pay for this success, and they have found that the largest "payoff" has been achieved through the use of highly aggressive financing practices.

This country's most effective answer to the challenge of foreign government subsidies and concessional financing has been the Export-Import Bank. In 1982, the Eximbank provided financing services that generated \$18 billion in American exports, thus enhancing the international competitiveness of the U. S. and contributing to the balance of trade. As an element of our overall export strategy, the Eximbank has played a number of important roles. It has assisted in the securing of export sales that private lenders are unable or unwilling to finance in the presence of special commercial or political risks, and it has been a critical factor in U. S. exporters' ability to meet competition from foreign competitors whose own export financing is subsidized by their governments. This last point is a key one for the U. S. aerospace industry, whose pre-eminence in the world market is no longer assured. We have now reached a point where maintaining or increasing U. S. market share will be extremely difficult -- the Commerce Department estimates that the widebody Airbus captured 22 percent, in value, of the orders for large transports in 1981, and went on to nearly double that showing during the first three quarters of 1982. Moreover, the fact that airlines tend to stick with their choice of aircraft through at least one generation means that sales lost now are likely to stay lost for 20 years or more.

We have no reservations regarding our ability to compete with foreign manufacturers on the basis of quality, price and service -- indeed, we would welcome an evenly-weighted competitive contest. The harsh reality, however,

is that we are being compelled to take on our competitors' governments as well, in the form of R&D, production, marketing, and particularly, export subsidies and support which they make available to their targeted industries.

Efforts to meet this double-barrelled foreign competition are further handicapped by the need to overcome our own government's reluctance to utilize fully the resources of the Export-Import Bank. While the Administration may now be reassessing previous decisions to restrict the Bank's activities, the depth of this apparent change of heart remains to be seen. From the point of view of the American aerospace manufacturers, the policies adopted by the Bank over the last two years have erected a formidable set of stumbling blocks to obtaining financing for export sales. For example, the one-time, "up-front" fee of two percent on all loans effectively adds a half percent to the interest cost of the loan. This initially discouraging aspect was compounded by the Bank's further decisions to:

- Turn down loans to purchasers of American aerospace products in developed countries absent the demonstration of competition;
- Refuse loans for allegedly "established" aircraft (e.g., the Boeing 747, 737-200 and 727) on the basis that they do not have any competition;
- Require that potential foreign customers requesting direct credit loans be actively considering a competitive bid from a foreign manufacturer;
- Discourage financing for follow-on purchases of additional aircraft.

Consequently, while the depressed state of the world economy has curtailed demand for major capital purchases, the shifting orientation of the Bank's policies was also a major factor in creating a situation where the Bank arrived at the end of FY '82 with \$1 billion in uncommitted direct loan resources. For an Administration whose principal domestic goal is a strength-

ened national economy -- and which has recognized the necessity of increasing export sales as a means to that end -- such policies are, at the very least, inconsistent. They impose severe restrictions on what has unquestionably been the most effective U. S. export promotion entity, undermining its proven ability to generate the employment and increased revenue benefits associated with Bank-financed exports.

The U. S. aerospace industry firmly supports efforts to eliminate all subsidized exports and to neutralize it as an element in aircraft foreign trade. In the case of financing for commercial jet transports, negotiations are continuing between the U. S. and the Airbus partners to extend and improve the Commonline Agreement, with the ultimate goal of having all commercial aircraft financing conform to market rates and terms. But such an ideal situation has yet to be attained, and for the United States to assume that unilateral renunciation of subsidized financing under any circumstances will hasten that ideal marketplace is both naive and self-defeating. The U. S. has insisted upon approaching arms limitation and reduction talks from a position of strength, and we should approach negotiation on export subsidies from a similar stance. An aggressive, well-funded Export-Import Bank is our most effective weapon for neutralizing export subsidies offered by our competitors, and our most compelling inducement for bringing those competitors to the bargaining table. It is also a cost-effective weapon: The Bank receives no appropriated funds, using loan authority instead, and operates as a self-sustaining institution by raising money in U. S. capital markets. To date, the Eximbank has returned more than \$1 billion in dividends to the U. S. Treasury.

While we are realistic enough to recognize that aircraft financing worldwide must change -- with the ultimate goal of eliminating government subsidies and returning financing to market tenor and market rate -- we firmly

believe that the Eximbank must be maintained as a vigorous short-term expedient. For this reason, we find the Administration's FY '84 budget request for Eximbank to be inadequate. Once again, the Bank's direct credit authority has been targeted for cuts, from the current \$4.4 billion ceiling to \$3.8 billion -- notwithstanding a Congressional Budget Office designation of \$4.6 billion as the current services level for the upcoming fiscal year. This seems particularly incongruous in light of the President's acknowledgement of the need to improve American export performance. While the submitted budget document does call for a supplemental authorization of up to \$2.67 billion in the direct loan ceiling, such additional authority would be wholly contingent upon two factors: A finding by the Administration that predatory foreign subsidized competition is present, and timely action by the Congress to approve any subsequently requested authority. This far from assures that such authority will be available if the need arises, and consequently, the net cut to Eximbank without that supplemental authority amounts to \$430 million.

The Administration's further proposal to increase the loan guarantee and insurance programs from \$8 billion to \$10 billion for FY '84 will be helpful as long as interest rates continue to decline, but there is no certainty in any quarter regarding long range interest rate trends. The Bank's loan guarantee and insurance programs will, however, become of paramount importance once the goal of export financing at market rate and term is achieved. The Eximbank, as a source of credit insurance and loan guarantees, will then play an appropriate and crucial role in supporting sales to those countries where the credit risks are deemed to be the greatest.

AIA, therefore, urges the Congress to set the direct loan ceiling for FY '84 at \$7 billion -- the level set in Senator John Heinz's bill to reauthorize the Bank's charter (S. 869). We believe that this level is justified for several reasons:

- An increased demand for export loans in FY '84 is anticipated as the world economy begins to recover from the recession;
- Sufficient direct loan authority will largely obviate the need for the Bank to persist in its application of the previously described restrictions now placed on available export financing;
- An increase to \$7 billion in direct credit authority will serve as a strong signal to our foreign competitors of our government's intentions to combat the practice of officially supported export financing, and discourage any potential government-subsidized incursions into the U. S. domestic market (Section 1912);
- The additional direct credit authority could serve as a "war chest" for third country competitions, which promise to be intense throughout the balance of the decade.

We realize that it may not be appropriate to incorporate changes in the charter which address these administrative decisions and policies, but we recommend that the accompanying report language direct the Bank to eliminate the restrictive qualifications it now applies to loan applicants, and make financing for aerospace products available according to the terms and conditions of the Commonline -- and without additional restrictions, requirements, provisions or limitations beyond those specified in the Commonline and the Bank's own charter.

In addition to providing the Eximbank with adequate loan authority, the charter reauthorization presents Congress with the opportunity to fundamentally strengthen the Bank as an important asset in the campaign to bolster the U. S. competitive position abroad.

We join with many of the witnesses appearing before the Subcommittee in emphasizing the need for Congress to clarify and affirm the Bank's competitive mandate. Given the realities of the kind of competition and subsidized

financing that today characterize world trade, we believe that the Bank should place first priority on being competitive, and secondarily, on being self-sustaining. We are, of course, in favor of the Eximbank operating according to sound financial principles; in fact, the Bank has in past years not only been self-supporting, but has built up reserves to see it through periods of disadvantage in borrowing vs. lending rates. But we believe that the current Administration has erroneously stressed the self-sustaining aspect of the Bank's operations to the disadvantage of American exporters.

AIA also urges that Congress make legislative changes to Section 1912 of the Export-Import Bank Act which would improve that provision's remedies for unfair financing practices employed by our foreign competitors in the U. S. domestic market. As an industry dependent upon access to the world market, we are also firmly committed to a philosophy of free and fair trade -- and consequently, we oppose any measures which take a protectionist direction. We are cognizant of the fact that the U. S. market is regarded as a ripe plum by our foreign competitors but when government subsidized financing is the wedge with which they choose to penetrate our domestic market, we urge that there be a strong commitment from both the Bank and the Administration to implement Section 1912 in a speedy and decisive manner.

We also endorse reconstituting and enhancing the role of the Eximbank Advisory Committee, and establishing fixed, staggered terms for the Bank's directors in order to isolate the Bank from political pressures. While we believe that complete independence from political influence will not be achieved until the Bank's programs are removed from the unified federal budget -- to accurately reflect the reality of the Bank exercising loan authority only, as opposed to direct outlay authority -- we are aware that such an effort at the present time may seriously hinder the charter renewal process.

Report language accompanying the reauthorization language should address

two other areas which our industry has found to be of growing importance.

In 1968, Public Law 90-390 was enacted, which permits Eximbank to lend to countries where greater than "normal" credit risks exist. The capability created by this law has become known as the Export Expansion Facility. The Act provides for \$500 million to be set aside from Eximbank's lending authority to finance exports where a "sufficient likelihood of repayment" exists. This is a somewhat lesser repayment standard than that specified in the Bank's general mandate. Although interest rates have come down in recent months, the availability of financing may in some countries become more of an issue than the rate. Many of the "newly industrialized countries" (NICs) are suffering severe creditworthiness problems due in part to heavy borrowing during the years of escalating oil prices.

At the same time such countries are suffering an enormous debt burden, they are also the most promising markets for the industrialized countries' manufactured output. Consequently, there will be intense competition among Europe, the Far East, and the U. S. for these markets in the coming decade. And even if interest rates remain low, export credit agencies will play an increasingly important role in making financing available on any terms, much less at a competitive rate. The Export-Import Bank has not made full use of the Export Expansion Facility because Congress has failed to provide the Bank with specific criteria for its use. As a result, Eximbank has provided very limited funding for U. S. exports to certain so-called "risky" foreign markets, although competing foreign export credit agencies have continued lending to these countries.

At a time when the commercial banking community is coming under extreme pressure for its extensive commitment and exposure in the developing nations, the Export Expansion Facility becomes even more important in promoting U. S. exports. Beyond an emphasis in report language of the rising importance of

this facility in today's world economy, AIA would like to suggest that the Subcommittee consider amending the Act according to the provisions of a bill introduced in the 96th Congress, known as the "Export Expansion Facility Amendments of 1980" (S. 2340).

Finally, as the cost of commercial aircraft goes up and long term fixed rate financing becomes more difficult to find, other forms of financing will emerge. One of these forms currently attracting interest is leasing. Where creditworthiness is a problem, for example, an operating lease may facilitate a sale because there is no transfer of title and the airplane may be leased based on its ability to generate its own debt service independent of any credit problems the host country may be having. Although the Eximbank can and does do leasing, we feel there is a need for a more aggressive policy in this type of financing. In the current cash-poor environment of many airlines, U. S. aircraft manufacturers may be excessively vulnerable to leasing competitions -- even in the U. S. domestic market. The Export Finance Committee of AIA is currently forming a subgroup to detail some of the issues in leasing large aircraft, and we would be pleased to provide the Subcommittee at a later date with more technical input.

While our industry has directly felt the consequences of competing in a world market where the rules of international trade have been manipulated by our competitors in order to ensure attainment of their economic goals, we do not advocate that the U. S. emulate the kind of foreign government/foreign industry cooperation and support which have come to characterize our trading competitors' efforts. We know that foreign government consortia, subsidies, targeted industries and the like are here to stay. This being the case, only an institutionally strong and adequately funded Eximbank will provide our foreign competitors with a true incentive to adopt non-subsidized market rate and market tenor financing, so that government supported financing becomes a truly neutral element in product selection.

THE BENEFITS OF EXPORTS
TO THE
NATIONAL ECONOMY

A Case Study from the
U.S. Aircraft Industry

AEROSPACE RESEARCH CENTER
Virginia C. Lopez, Director
Celia M. Sherbeck, Economist

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.
1725 De Sales Street, N.W., Washington, D.C. 20036

February 1983
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A CASE STUDY *

Methodology

In order to get an independent evaluation of the impacts on the U.S. economy of a change in aircraft exports, the Aerospace Industries Association asked Chase Econometrics/Interactive Data Corporation (Chase) to examine these effects.

Chase used its Macroeconomic and Interindustry Models to examine the impact of a \$1 billion increase in 1982 aircraft exports. Due to the long lead times in aircraft production it is assumed that enough sales have been made to cause a \$1 billion increase of deliveries to export markets in 1982. Baseline for comparison was the Chase Long-Term Moderate Growth Scenario of November 1981. All monetary figures represent 1982 dollars unless otherwise stated. Direct and indirect effects were examined for the period 1982-1990.

Assumptions

Several key assumptions made in the study must be noted. First, since the \$1 billion increase in aircraft exports is small relative to the three trillion dollar U.S. economy, it was assumed that the increase would have no significant impact on the general price level in the United States. Further, it was assumed that the increase in aircraft exports would have no effect on the magnitude of federal, state and local government expenditures for goods and services.

In keeping with the pattern of follow-on sales experienced in the market for aircraft, aircraft engines and spare parts, it was assumed that the initial increase of \$1 billion would lead to increases in export sales for spare parts and follow-on fleet sales. In addition to the initial sales, incremental exports

* From a report on The Economic Impacts of Increased Aircraft Exports, prepared by Chase Econometrics/Interactive Data Corporation for the Aerospace Industries Association, June 1982.

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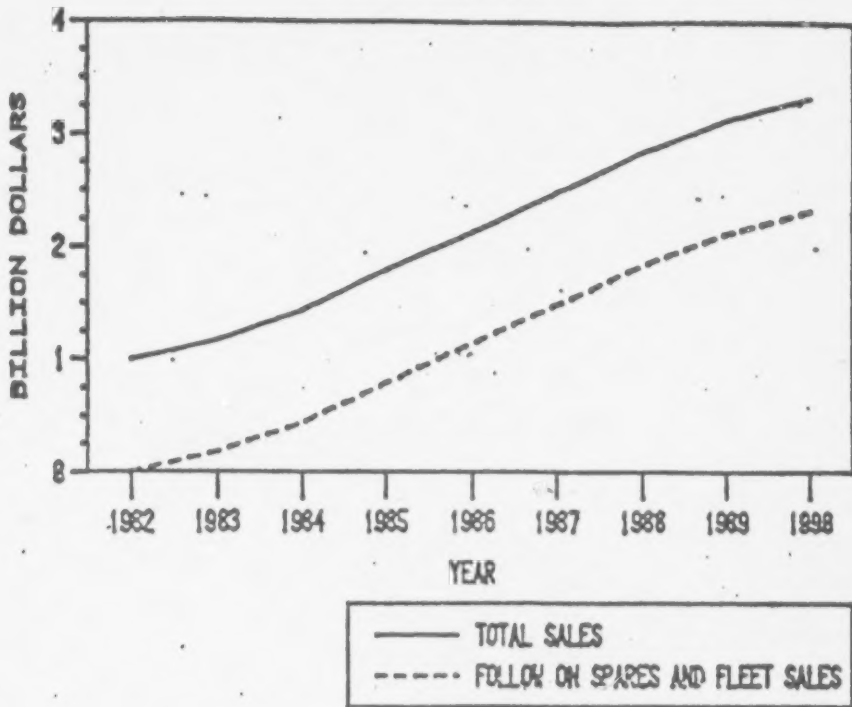
TABLE 10
Export Assumptions
Annual Value of Aircraft and Parts Sales
1982-1990

1982	1.00
1983	0.18
1984	0.26
1985	0.34
1986	0.35
1987	0.35
1988	0.35
1989	0.28
1990	0.20
Total	3.32

Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

NOTE: Components may not add to totals due to rounding.

FIGURE 6
Cumulative Sales Increase In
Aircraft Exports



Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

TABLE 11
INDUSTRY EMPLOYMENT GAINS

	Full Time Equivalent (FTE) Job-Years		% of Total Ind. Empl.
	Total 1982-90	Annual Average	
Total Employment	148.4	16.49	.02
MAJOR INDUSTRY IMPACTS			
Transportation Equipment	46.25	5.14	.29
Aerospace	44.20	4.91	.90
Other	2.05	.23	.02
Finance and Services	22.75	2.53	.01
Trade	21.87	2.43	.01
Construction	17.84	1.98	.03
Nonelectrical Machinery	5.46	.61	.02
Electrical Machinery	5.04	.56	.02
Transportation Services	4.70	.52	.01
Fabricated Metals	4.13	.46	.03
Instruments	3.03	.34	.05
Primary Metals	2.88	.32	.02
Food and Beverages	2.28	.25	.01
Publishing	1.92	.21	.02
Communication Services	1.65	.18	.01
Chemicals	1.58	.17	.01
Rubber and Plastics	1.24	.14	.02
Agriculture	1.18	.13	.02
Stone, Clay and Glass	.94	.10	.02
Paper and Pulp	.92	.10	.01
Textiles	.65	.07	*
Furniture	.59	.07	.01
Lumber	.56	.06	.01
Public Utilities	.40	.04	*
Mining	.30	.03	*

Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

* Less than .01 percent.

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TABLE 12
INDUSTRY OUTPUT GAINS

	SHIPMENTS		% of Total Ind. Output
	Total 1982-90	Annual Average	
millions of 1982 dollars			
Total Output	10,655	1183	0.03
MAJOR INDUSTRY IMPACTS			
Transportation Equip	5457.9	606.4	0.20
Aerospace	5066.4	569.0	0.55
Other	391.5	37.4	0.03
Trade	1096.4	121.8	0.01
Finance and Services	513.4	57.0	*
Primary Metals	501.5	55.7	0.02
Electrical Machinery	458.0	51.0	0.02
Transportation Services	385.9	42.9	0.02
Nonelectrical Machinery	382.9	42.5	0.01
Fabricated Metals	358.1	39.8	0.02
Construction	308.7	34.3	0.02
Food and Beverages	231.5	25.7	0.01
Public Utilities	218.4	24.3	0.01
Instruments	151.3	16.8	0.03
Petroleum Refining	148.9	16.5	*
Communication Services	144.2	16.0	0.01
Chemicals	134.1	14.9	0.01
Stone, Clay, Glass	101.8	11.3	0.01
Agriculture	96.2	10.7	*
Publishing	75.1	8.3	.01
Paper & Pulp	67.5	7.5	.01
Rubber &Plastics	65.5	7.3	.01
Lumber	26.3	2.9	*
Furniture	25.9	2.9	.01

Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

* Less than 0.01%.

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TABLE 13
IMPACT ON REAL ECONOMIC ACTIVITY

	1982	Total
GNP	1.20	6.50
Consumption	0.29	3.01
Durables	0.14	0.63
Nondurables	0.10	0.85
Services	0.05	1.53
Investment	0.06	1.07
Nonresidential Structures	0.02	0.46
Nonresidential Equipment	0.01	0.25
Residential	0.00	0.12
Inventory Change	0.03	0.24
Net Exports	0.85	2.42
Exports	1.00	3.27
Imports	0.15	0.85

Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

NOTE: Components may not add to totals due to rounding.

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of one percent per year for spare parts were assumed for each year--1983 through 1990.

Further, it was assumed that increased follow-on fleet sales would amount to three times the value of the initial sale over a 20-year period with 75 percent of those sales falling during the 1983 to 1990 time period. This amounts to increased follow-on fleet sales of \$2.24 billion.

Table 10 shows the annual value of the additional aircraft exports assumed. Figure 6 depicts the cumulative effect.

Using these follow-on fleet assumptions is tantamount to assuming an increase of \$1 billion in export sales of a new generation of aircraft or sales of an older model to a new customer. An example of this might be the sale of 12 767's and 16 757's to new customers, or the additional sale of 10 to 16 747's, or 15 DC10-30's.

Results

Using the assumptions and methodology described above, Chase found that an initial increase of \$1 billion in aircraft-related exports would add 44,000 full time equivalent (FTE) man-years in the aerospace industry. As a result of supplier sales and the multiplier effects described earlier, the total impact of the \$1 billion increase would be 148,000 FTE man-years during the period 1982-1990. Table 11 shows the division of these man-years into various industries. Both the total impact and the average annual impact are presented.

Total gross industry output, which includes both intermediate and final sales, follows a pattern of impacts similar to that seen in employment. Table 12 depicts the distribution of the \$10 billion total impact by industry.

The initial \$1 billion generates a \$5.5 billion increase in GNP over the period 1982-1990. Almost half (\$3.0 billion) of this reflects increased consumption resulting from the incremental direct and indirect wage earnings.

Investment increases \$1.0 billion over the baseline case. The remainder of the \$6.5 billion GNP increase is due to a \$2.4 increase in net exports. The initial increase leads to a total gain in exports of \$3.3 billion and the nearly \$0.9 billion increase in imports reflects the use of foreign-made aircraft components and other unrelated goods, such as those for individual consumption.

Table 13 shows the 1982 and total 1982-1990 impact of aircraft exports on the U.S. GNP. As described above, such an increase in exports also has an impact on government receipts and expenditures through personal and corporate income taxes, social security receipts, state and local receipts, unemployment compensation payments and government interest expense. The 1982 impact on government budgets, excluding interest expense, is \$400 million. Table 14 presents the cumulative effect for the nine-year period in both current year and constant 1982 dollars. The total reduction in the federal deficit, including interest expense impacts, over the nine-year period is \$3.7 billion in current dollars or \$2.4 billion in 1982 dollars.

TABLE 14
IMPACT ON GOVERNMENT RECEIPTS
AND EXPENDITURES

	BILLIONS OF DOLLARS			
	CURRENT \$		CONSTANT \$	
	1982	TOTAL 1982-1990	1982	TOTAL 1982-1990
Federal Receipts	0.31	2.17	0.31	1.64
Personal Income Taxes	0.11	0.77	0.11	0.58
Corporate Taxes	0.08	0.50	0.08	0.40
Social Security Receipts	0.12	0.90	0.12	0.67
State and Local Receipts	0.04	0.23	0.04	0.18
Unemployment Compensation	-0.05	-0.30	-0.05	-0.24
Total Gov't Budget Impacts	0.40	2.70	0.40	2.05

Source: "The Economic Impacts of Increased Aircraft Exports" prepared by Chase Econometrics/Interactive Data Corporation, for the AIA, June 1982.

NOTE: Components may not add to totals due to rounding.

STATEMENT OF
EDWARD T. CLOONAN
DIRECTOR OF DOMESTIC AND INTERNATIONAL PUBLIC AFFAIRS
AMERICAN INTERNATIONAL GROUP, INC.

I am Edward T. Cloonan, Director of Domestic and International Public Affairs for American International Group, Inc.¹ It is a pleasure to address this Subcommittee regarding the re-authorization of the Charter of the Export-Import Bank of the United States.

The focus of these hearings is on examining the operations of Eximbank to determine if the Bank is fulfilling its responsibilities, as mandated in its charter, to continually strengthen the competitive position of U.S. exporters of goods and services.

We strongly support the programs and activities of Eximbank and we encourage the efforts of those involved in reviewing Eximbank's charter to identify ways to enhance its competitiveness. It is our opinion, however, that if Eximbank is to fulfill its mandate, it must include not only in its lending programs and facilities, but in its procurement policies as well, more comprehensive guidelines that take into consideration the need to assist U.S. exporters of services.²

At this time, we would like to address the issue of Eximbank policy--or lack of policy--on the procurement of insurance on projects and sales financed by the Bank.

We are concerned that guidelines presently used to arrange the procurement of insurance to cover Eximbank transactions allow many--if not most--client countries to invoke restrictive business practices to force the placement

¹American International Group, Inc., is a holding company whose insurance subsidiaries engage in property, casualty, marine and life business in more than 130 jurisdictions around the world.

²Recent statistics indicate the increasingly important role of services in the national economy--nearly 70% of the U.S. labor force is employed by service industries, producing approximately 65% of the U.S. gross national product. The U.S. insurance industry, like the British insurance industry, consistently provides one of the only positive contributions to the U.S. balance of payments.

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of this significant amount of insurance business in their local markets with national insurers. As a result, U.S. insurers never even have the opportunity to compete for this business, even though it is generated by U.S. tax dollars. In the absence of appropriate guidelines for the procurement of insurance, Exim continues to fail to exploit the export potential of one of the largest and most productive industries in the national economy at a time of growing trade deficits and high unemployment.

In recent years, the U.S. insurance industry has witnessed the proliferation of restrictive business practices and non-tariff barriers in many countries which prevent U.S. insurers from effectively competing in foreign markets. Some of those restrictions that Eximbank client countries effectively use to prevent U.S. insurers from competing for insurance business related to U.S. Eximbank financed projects include the following:

1. Nationalized insurance sectors - a market condition where the government manages an insurance monopoly and foreign participation in the market is illegal.
2. National legislation that requires all insurance companies be nationally owned.
3. National government procurement legislation that requires all business on government projects and contracts be placed only with local, national companies.
4. Discriminatory market practices are often times used rather than regulations or legislation. Such practices include granting all such business to preferred national insurers without any competitive bidding. In other countries, a systematic process of bureaucratic and administrative delays is used to prevent U.S. insurers from presenting appropriate and timely bids which discourages placement of the business with U.S. insurers and the business is usually awarded to a local, national insurer. It should be noted that such discriminatory market practices are as effective in directing the placement of insurance business as documented legislation.
5. Legislation that requires insurance on all imports be placed with local, national insurers.

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The following examples illustrate how such practices are used to effect the placement of this business.

A. Algeria

Not long ago, Eximbank initially approved a \$313.5 million loan to Sonatrach--Algeria's oil and gas monopoly--to finance the construction of a large liquified gas plant at Arjew.³

In Algeria, however, the insurance industry is nationalized. There are no private sector insurance companies operating in Algeria and by law, all the insurance business on this project financed by U.S. tax dollars would have to be purchased from the Algerian state insurance company. This business, however, will not be underwritten and retained in Algeria because this state company--like similar companies in many other developing countries--is minimally capitalized. The national company simply obtains the premium and reinsures the business in major European reinsurance centers while collecting substantial commissions for their part of the transaction.

Because of the colonial history of Algeria and the strong cultural ties that remain with the French through language and education, commercial links have been maintained as well. As a result, most of the reinsurance business would most likely have been placed in the French reinsurance market. In effect, the eventual recipients of U.S. tax dollars are the Algerians and the French. We estimate that the premiums lost to U.S. insurers on this project alone would have been approximately \$4-10 million.

³It is our understanding that this loan was cancelled, but it remains a good example for this discussion.

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B. Nigeria

Another example of restrictive practices adversely impacting the U.S. is Nigeria's practice of forcing procurement of insurances in Nigeria with the following two regulations:

1. That all imports into Nigeria be insured by Nigerian companies, and
2. That all contractors administered by the Federal or State government of Nigeria, without reference to source of financing, have all associated insurances placed with state-owned insurance companies in Nigeria. This requirement is a formal part of the standard contract wordings in Nigeria, and is strictly enforced.

Since the state-owned insurance companies in Nigeria are minimally capitalized, the insurance premiums flow through to Europe, and in this case primarily British reinsurers.

These two restrictive procedures are very typical of the established practice of the third world.

To further demonstrate the significance of this problem, we reviewed some of Eximbank's lending activities in 1979 and conducted an actuarial study to estimate the loss of earnings to U.S. insurers resulting from the present insurance procurement policies of Eximbank. We concentrated on the following areas.

1979 - Aviation Supported Sales	\$3.4 billion
- Contractors Supported Sales	2.0 billion
- Electric Power/Mining/Refining	1.3 billion
- Agriculture/Communication/Manufacturing	2.0 billion
Total	\$8.7 billion

Some of the insurance coverages required to appropriately manage the resultant risks include the following:

- a. Aviation Hull and Liability
- b. Contractors All Risk
- c. Contractors General Liability
- d. General Liability including Products
- e. Marine Cargo

All of these coverages are available from U.S. insurers in most markets of the world. According to our estimates, if U.S. insurers were to capture even 10% of this 1979 business, it is conservatively estimated that after three years, an annual insurance premium of approximately \$40 million could have been generated.

U.S. insurers have repeatedly approached Eximbank to demonstrate their concern on this issue.⁴ Some years ago, when the issue was first raised to senior management at the Bank, their response was that U.S. insurers did not have the managerial capability or intimate knowledge of the markets Eximbank were involved in to provide the type of insurance services required for large, highly-technical projects in primarily developing countries. If this was true at any time in the history of the industry, it certainly is not true today.

More recently, Eximbank has focused their arguments on two points. First, they argue that counterpart government facilities in other countries do not have policies or regulations that either require competitive bidding for related insurance business or, in any way direct the placement of this

⁴The International Insurance Advisory Council (IIAC), the Trade Association for U.S. insurance companies operating internationally and managed by the U.S. Chamber of Commerce, has been active in attempting to encourage the Bank to change its position on insurance procurement. Their position is that U.S. insurers should be given the right to compete for the business.

business. Instead, Eximbank officials insist that counterpart banks simply defer to any legislation or market practices in the client country. Second, bank officials advise U.S. insurers that because of intense competition between competing government financing facilities, any policy or regulation regarding insurance would jeopardize the banks competitive position in international markets.

In response to Eximbank's position, we conducted a review of the policies and practices of counterpart banks in other countries. Although it is extremely difficult to get this kind of information, our conclusion is that other banks do not simply defer to national legislation and discriminatory market practices in client countries. On the contrary, we believe counterpart banks assure, by primarily market practice, that national insurers receive either all or a certain percentage of the related insurance business.

For example, the Canadian government financing agencies include the Canadian International Development Agency (CIDA) and the Export Development Corporation (EDC). Both agencies provide low interest loans for the purpose of facilitating and developing Canada's export trade.

When these agencies are reviewing potential loans, the major factor in the decision-making process is that Canadian goods and services will be purchased. To that end, both agencies require the organizations or governments receiving the loans to complete a Canadian Content form. According to informational materials provided by the Canadian government, Canadian Content is defined

as "the proportion of the value of goods and services exported which is spent and retained in Canada, and therefore, creates or maintains employment."⁵ In effect, the form provides data to a loan review committee to determine if an appropriate amount of Canadian services, equipment and materials are to be purchased with the funds made available through EDC and CIDA loans.

In the insurance clause of the contract, it states that insurance and reinsurance must be purchased and paid for through a Canadian broker. By requiring the services of a Canadian broker, it is clear that the intention is to create the conditions whereby a Canadian insurer has a distinct and effective competitive advantage in successfully procuring business generated by Canadian government agencies. Moreover, according to informed sources in Canada, it is standard market practice that during the negotiations for the purchase of insurance, both agencies will demand the same amount of Canadian Content for insurance as applies to goods--despite national legislation or market practices in the country receiving the financing. According to the available literature, these agencies have not set a standard Canadian Content level. Nevertheless, the agencies seek to maximize the Canadian Content of each transaction. In recent years, the Content has averaged 80 percent.⁶

The combination of documented regulations and market practices used by Canada refutes Eximbank's basic premise that no other bank controls or encourages the placement of insurance business related to projects financed

⁵Information Circular No. 80-5, Export Development Corporation, P.O. Box 655, Ottawa K1P5T9

⁶Ibid.

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by their loan programs. Other banks, however, are successful at doing the same thing as well. France's COFACE, the U.K.'s ECGD, Italy's SACE and Japan's Eximbank all successfully direct the placement of related insurance business with respective national insurers. These organizations do not defer to discriminatory national legislation and market practices in client countries.

To suggest that requiring competitive bidding for insurance procurement on Eximbank financed projects effects the competitive position of the Bank is simply wrong. The competitiveness of Eximbank is directly related to available funds, interest rates and terms of the loan agreement, especially the length of the repayment period--not insurance procurement regulations.

For example, several years ago Airbus, a European consortium engaged in the manufacturing of aircraft, had been consistently winning large contracts at the expense of Boeing. In a directed effort to compete more effectively against Airbus, Eximbank extended the length of its standard repayment period from 5 to 15 years. As a result, Boeing then won contracts at the expense of French Airbus. The difference being primarily the terms of the loan agreement.

Nevertheless, the real issue is not the policies and practices of other government financing facilities. What we are concerned with is that present Eximbank guidelines on insurance procurement ignore the fact that the U.S. economy is now a service economy. By not exploiting the export potential of U.S. insurers, Eximbank falls short of aggressively pursuing its mandate to both increase U.S. exports and jobs for Americans.

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There appears to be no logical, strategic, or business reason for Eximbank's policy. U.S. insurers operate in and know the markets well; changing the policy will not effect Eximbank's competitive position whatsoever; and counterpart government facilities, primarily by market practice, direct the placement of most--if not all of this business--with insurers from their own countries.

We are not requesting preferential treatment. We are simply requesting that U.S. insurers be guaranteed the right to compete on equal terms with foreign insurers in markets throughout the world for insurance procurement business generated by Eximbank financed sales and projects.

Because of our interest in the issue and our extensive knowledge of the markets throughout the world receiving preferential financial services from various Eximbank programs, we will be happy to work with Congress and Eximbank to develop an appropriate and comprehensive policy for insurance procurement that will include the design of mechanisms to continually monitor its successful implementation.



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STATEMENT OF
EDWARD W. STIMPSON, PRESIDENT
GENERAL AVIATION MANUFACTURERS ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE
ON
THE EXPORT-IMPORT BANK ACT
MARCH 24, 1983

I am Edward W. Stimpson of the General Aviation Manufacturers Association and I appreciate the opportunity to testify in support of S.869.

Our manufacturers produce 95 percent of the general aviation aircraft, engines, avionics and component parts produced in the United States. Historically, 25-30 percent of our aircraft are sold abroad, so we are very much interested in the Eximbank and the proposed changes contained in this bill.

The threat posed by foreign aircraft manufacturers over the past few years has grown markedly. Today we see a wide variety of highly competitive, sophisticated and technologically comparable foreign aircraft, especially in the business jet and turboprop classes. Produced by government-owned or government-supported firms, and offered for sale with subsidized financing, they are very attractive to overseas customers. Our private firms, dependent on commercial financing terms, are losing ground



Edward W. Stimpson
March 24, 1983
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in their quest for foreign sales. The Eximbank has great potential for assisting our domestic industry in competing abroad.

Unfortunately, Eximbank has provided very little support for our airplane exports over the past several years. A recent study completed by the Bank concluded that only three direct loans and one guarantee had been provided for general aviation sales during the period covered by the study. Our experience has been that, for most export sales, the sums involved have been below the multi-million dollar threshold required by the Bank for consideration. As a result, we have virtually stopped seeking the Bank's support.

During the past several months, however, the Bank has moved to correct these deficiencies. In October 1982 it implemented its Medium-term Credit Program and, in recent weeks, it relaxed its proof-of-foreign-competition requirements. Together, these changes in policy should prove helpful to our industry. Unfortunately, it's too early to determine just how helpful they will be, but we appreciate the Bank's obvious attempts to rectify some of its long-standing deficiencies.

Despite the contentions of some that the existing Eximbank charter provides sufficient flexibility, the proposed changes in S.869 would, in our judgment, tend to stabilize the Bank's



Edward W. Stimpson
March 24, 1983
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service to the nation's economy and its export community by staggering the appointment of directors, thereby minimizing the impact of political appointees and adding continuity to the Bank's policy-making board. Moreover, reestablishing the advisory committee and increasing its membership from nine members to twelve should help in bringing before the Board a broad-based, more objective body of advice. In addition, the committee's semi-annual report should provide the Congress with an unbiased assessment of the Bank's activities, and better serve the interests of the export community.

We enthusiastically support the bill's other proposed changes as well, and commend its authors for proposing such constructive changes. Regrettably, there is one needed change that has not been included, and we would ask that the Committee give it every consideration.

During these past two years or so, when interest rates have been inordinately high, the Bank's deficit operations have been widely perceived to have been incurred at the expense of the taxpayers. For this reason, there has been considerable resistance to any proposed increase in Eximbank lending authority, despite the growing incidence of foreign financing subsidies. Inasmuch as the Eximbank budget is included in the unified budget, the annual authorizations provided by the



Edward W. Stimpson
March 24, 1983
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Congress appear as any other expenditure program, even though they merely impose a limit on the Bank's capacity to borrow or extend guarantees. To avoid the continuation of this misleading budget treatment, we ask the Committee to consider the establishment of a U.S. credit budget under which the Bank could receive its authorizations. The Eximbank has a long and commendable record as a financial institute, returning dividends that have repaid the original capital investment. It makes little sense to compromise its ability to provide competitive export financing by disguising its authorizations as unwanted Federal expenditures.

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BEFORE THE
INTERNATIONAL FINANCE AND
MONETARY POLICY
COMMISSION, HOUSING, AND URBAN AFFAIRS
COMMISSION, UNITED STATES SENATE

STATEMENT
OF
AMERICAN TEXTILE MACHINERY ASSOCIATION

APRIL 18, 1983

American Textile Machinery
Association
7297 Lee Highway
Falls Church, Virginia 22042

This statement is presented by the American Textile Machinery Association ("ATMA") in support of S. 869 which would, inter alia, reauthorize the Export-Import Bank.

ATMA is a nonprofit trade association representing domestic manufacturers of complete textile machines, accessories, parts, attachments and supplies. Among its more than 125 members are the principal domestic textile machinery manufacturers.

ATMA members are located throughout the United States, with major concentrations in the states of North and South Carolina, Georgia, Massachusetts, New York, Rhode Island and Pennsylvania. The textile machinery industry employs approximately 20,000 workers and supplies a textile industry of nearly one million workers in the United States, by far the world's largest market for textile machinery.

ATMA endorses President Reagan's statement in the 1983 State of the Union Address that "we must have adequate export financing to sell American products overseas. . . ." A continued and strengthened Export-Import Bank is absolutely essential if President Reagan's call for export expansion is to be answered.

The full range of Export-Import Bank programs plays an important part in helping domestic industries enter export trade or expand their export potential. Eximbank is crucial to the success of the textile machinery industry's current and future export trade development.

Not all is well with our industry, despite its traditional world competitive character. Twenty years ago, our industry enjoyed about 15 percent of the global textile machinery market. At that time, our

U.S. mills purchased substantially less than 10 percent of their machinery from off-shore suppliers. Today, our share of the world market has shrunk to perhaps 6 percent, despite being comprised of some of the most competitive producers of high quality products in the world. In the last 20 years, our employment has declined by 50 percent, approximately 20,000 jobs, and our domestic customers are now purchasing more than 40 percent of their machinery from abroad. In short, we are in severe trouble in both domestic and developing off-shore markets.

Our industry continues to export 25 to 30 percent of its production, despite insufficient and non-competitive financing, closed markets, and the strong dollar. Non-competitive financing is a principal cause of our decline, not the only cause, but certainly a most substantial contributing factor to the decline. We seek direct, swift, and simple remedies to reverse this situation. These remedies are not novel. They are based on the principles of free trade, but fair free trade, on a two-way street of equitable practices.

There is great potential in world markets for U.S. manufactured textile machinery. For example, world textile consumption, now at 60 billion pounds, is expected to increase to 96 billion pounds by the early 1990's. A large part of that increased consumption will be produced by U.S. mills, but not all of the increased U.S. production will be on U.S.-made machines. Clearly, there is a solid worldwide market for U.S. textile machinery for which our industry is now competing under adverse conditions.

The substantial recent growth in textile manufacturing markets has occurred in the less developed countries of the Far East, Near

East, Africa and Eastern Europe, requiring U.S. manufacturers to look to less developed countries as the best growth markets for textile machinery. In these markets, however, the need for a variety of financing plans and flexible credit arrangements must be met if American manufacturers are to capture and hold a viable share of the market. The Export-Import Bank must play a substantial role in efforts to increase foreign sales. If it does not, U.S. manufacturers will lose sales to subsidized foreign competitors.

There can be no doubt that the promotion of exports is a worthwhile investment. A recent study conducted by the George Washington University School of Business Administration found that,

if the U.S. Treasury made low interest rate loans available to exporters, the actual rate of return on its investment would be substantial. At loan interest rates between 6 and 10 percent -- rates that would normally be competitive with loans provided by foreign governments -- the actual return to the Treasury would be between 18-20 percent. In short, export loans are an excellent national investment with the bulk of the returns realized in the first two years . . .

Without this investment, at best, we can expect a reduction of employment in the small to medium-sized firms and at worst, the demise of superior companies that are producing superior products in the United States.

The study also supports the premise that,

with most companies dealing in capital goods, an integral part of the sales contract is the financing package. When the competitors are domestic entities, the packages offered usually have similar, if not identical, terms and rates, and the buying decision is based on product quality and price. ^{1/}

^{1/} F. Amling, F. Ghadar & Y. Park, Export Credit Financing: A Cost-Benefit Analysis to the Federal and State Treasuries, (1982).

Specifically, ATMA wishes to comment on the following provisions of S. 869.

Section 103. ATMA supports the proposed changes concerning the terms of Export-Import Bank directors. Under current law, terms of the directors are "at the pleasure of the President of the United States." The proposed change would establish four-year terms, with three new members appointed two years after enactment, in order to stagger the appointment of new members. These staggered terms for directors will result in a more consistent operation of the Export-Import Bank.

Section 104. ATMA supports a six-year reauthorization for the Export-Import Bank. The Administration has proposed a five-year reauthorization, others have requested a two-year reauthorization. ATMA believes that at least a six-year reauthorization is necessary to ensure continuity and demonstrate U.S. commitment to global competition through Export-Import Bank's operations.

Section 105. This section relates to Export-Import Bank financing of domestic sales and would, if adopted, remove several barriers which currently impede domestic businesses which compete in the domestic marketplace with foreign sellers who oftentimes have below market financing available.

ATMA is generally supportive of the proposed changes to section 1912 of the present law. The existence of section 1912 clearly establishes Congressional intent to utilize the Export-Import Bank to balance trade abroad and at home. Since November 1978, the Secretary of the Treasury has been empowered to authorize the Export-Import Bank to provide financing to domestic businesses competing

with foreign businesses for sales in the United States. However, not once has the Secretary of the Treasury authorized the Export-Import Bank to provide such matching financing to a domestic company.

ATMA urges congressional action to make Section 1912 a useful and used instrument of equity for consumation of domestic sales by manufacturers and the preservation and expansion of domestic employment. We must have a fair chance to supply our home market. Our off-shore competitors and their governments must realize this nation's absolute commitment to fair competition. Past experience suggests that this realization can be achieved only if Congress stops overlooking "gentlemen's agreements" and trading partner abuses that are eroding our industrial base. Simply stated, continued congressional tolerance of inequitable trade practices will contribute to the demise of our industry.

Burdensome procedural requirements with which the Secretary must comply before issuing authorization to Eximbank to provide matching financing obviously have retarded the use of this statutory remedy. Currently, the Export-Import Bank Act requires that prior to issuing authorization to Eximbank:

- (1) The Secretary must determine that foreign non-competitive financing is being offered.
- (2) The Secretary must request the foreign export credit agency to withdraw the financing.
- (3) If the financing is not withdrawn, or no immediate response to the request is received, the Secretary must inform the country offering the financing and all parties to the proposed sale that Eximbank may be authorized to provide matching financing.

- (4) The Secretary may then authorize the Export-Import Bank to offer matching financing but only if he determines that:
- (a) the availability of foreign non-competitive financing is likely to be a determining factor in the proposed sale; and
 - (b) the foreign non-competitive financing has not been withdrawn on the date the Bank is authorized to provide competitive financing.

These procedural requirements severely limit the ability of Export-Import Bank to combat the subsidization of financing by foreign credit agencies. In the real world, by the time the procedure is complete, the sale is lost, especially for small and medium size projects.

Specifically, S. 869 would make three changes in section 1912. First, it imposes a time limit on the Secretary of the Treasury to complete an inquiry and determination as to whether foreign subsidization is a significant factor in an offer made by a foreign seller. Currently, there is no time limit imposed on the Secretary in which the requisite actions and determinations must be made prior to issuing authorization to the Export-Import Bank. Business negotiations often move rapidly and the opportunity for a domestic company to compete with respect to a particular transaction may be lost before a decision is made to issue an authorization to the Export-Import Bank. The proposed time limit of 60 days would be a substantial improvement to the current limitless time frame. However, we request consideration of a 30-day limit.

Second, the amendment would change the standard used to assess the impact of foreign subsidization. Currently, the existence of foreign subsidized financing must be a determining factor in the loss of a sale to a foreign competitor in order for the Secretary of the Treasury to authorize the Export-Import Bank to provide matching financing. The proposed amendment liberalizes the standard by changing the existence of foreign subsidized financing from "a determining factor" to "a significant factor." Enactment of this would be a substantial improvement.

Third, current law does not require the Export-Import Bank to act on an authorization for section 1912 financing. This amendment makes action by the Export-Import Bank mandatory if the Secretary of the Treasury determines that foreign subsidization is a significant factor in the proposed sale by the foreign competitor. We agree that only one finding is necessary to make this competitive decision. Moreover, the procedure for making that finding should reflect Congress' clear intent to promote the competitive position of domestic industry.

Compliance with worldwide accepted principles of financing is by international gentlemen's agreements only. Unfortunately, in practice these principles frequently are ignored. Revision and use of section 1912 will force offshore competitors to adjust their unfair practices and be consistent with global principles.

Concurrently, such an approach would be much more advantageous to textile machinery purchasers in the U.S. than would be protectionistic measures, such as countervailing duties, which only penalize U.S. customers. The approach offered in S. 869 gives customers the

financial latitude to make purchase decisions based on quality and productivity.

Subsidized imports flowing into this country are just as debilitating to our industry as reduced export sales. Subsidized imports clearly cost domestic jobs. Unemployment slows economic recovery and is a major expense for the federal government. Recent Congressional Budget Office estimates showed that each percentage point of unemployment costs the federal government \$25 billion in increased outlays and decreased revenues.

Approximately ten percent of the 300,000 U.S. manufacturing companies are involved in export sales. With record-high unemployment prevailing in the U.S. economy, there is ample justification to utilize Eximbank in domestic financing in response to subsidized foreign financing as well as strengthen our export financing programs.

The American textile machinery industry is efficient and productive; many of its products remain the technological standard leader worldwide. But the textile machinery industry cannot withstand the continued onslaught of unmatched foreign subsidized financing of third country and domestic market projects and remain a viable competitor in domestic or worldwide markets.

The attached exhibits (A) "Toward Equity in International Trade," and (B) a memorandum from the Barber-Colman Company, underscore the need for a responsive Eximbank. It is a fact that certain foreign sellers have been offering, are offering, and will continue to offer subsidized financing to the U.S. market as well as third country markets. It also is a fact that absent the enactment of the

provisions which we have endorsed, domestic manufacturers will be unable to survive in competition with current financing practices. Therefore, we urge prompt and affirmative congressional action.

American business is in need of a swift and practical financing initiative which will meet and retard inequitable trade practices. S. 869 provides a partial answer to these practices.

TOWARD EQUITY
IN
INTERNATIONAL TRADE

AMERICAN TEXTILE MACHINERY ASSOCIATION

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DECEMBER 1981

POSITION PAPER OF THE
AMERICAN TEXTILE MACHINERY ASSOCIATION

TOWARD EQUITY IN INTERNATIONAL TRADE

This position paper was developed by the American Textile Machinery Association [ATMA]. ATMA is a nonprofit trade association representing domestic manufacturers of complete textile machines, accessories, parts, attachments and supplies. Among its more than 125 members are the principal textile machinery manufacturers in the United States.

ATMA primarily is composed of small businesses, located in the states of North and South Carolina, Georgia, Pennsylvania, Rhode Island, Massachusetts and New York. Approximately 25,000 textile machinery workers and at least an additional 13,000 in supportive industries produce the equipment and supplies necessary to sustain a United States textile industry with one million workers and a growing export business.

We believe the position of United States exporters is in jeopardy due to a combination of factors not remediable by one piece of legislation. However, we believe that there is an opportunity for this Congress, in cooperation with the Administration, to restructure and strengthen the nation's export capabilities. ATMA members, as well as other small businesses, are discouraged from exporting specifically because of their small size, in addition to existing impediments affecting all exporters. ATMA's position regarding export trade policy is as follows:

1. In recent years, the United States textile machinery manufacturing industry has experienced a declining balance of trade and employment;
2. Small business exporters are in a particularly adverse position relative to foreign competitors due to inadequate and uncompetitive financing of their export projects;

3. Other nations are actively encouraging and facilitating export trade by their industries; and

4. Existing laws, regulations and policies retard export growth by creating unnecessary obstacles and restrictions to exporting goods and services.

I. THE AMERICAN TEXTILE MACHINERY INDUSTRY HAS EXPERIENCED A DECLINING BALANCE OF TRADE AND EMPLOYMENT

The U.S. textile machinery industry has experienced growth since 1977 in overall production and value of its textile machinery exports, however the long range forecast of real growth of the American textile machinery industry estimates an annual average increase in shipments of less than three percent through the year 1984.^{1/} Furthermore, the United States has experienced a steadily declining balance of trade in textile machinery. Between 1960 and 1979, the American textile machinery industry has seen its share of its own domestic market decrease from 93 percent to 54.5 percent^{2/} and the total number of employees directly employed in the industry decline from 46,300 in 1966 to less than 25,000 today. Contributing to the decline in domestic sales is the fact the United States is a fertile export market for our foreign competitors. When faced with high interest rates at home, domestic customers are hard pressed to turn down foreign goods and the subsidized credit that is offered to finance such goods.

There is great potential in world markets for U.S. manufactured textile machinery. For example, world textile consumption, now at 63 billion pounds, is

1/ Bureau of Industrial Economics, U.S. Department of Commerce, U.S. Industrial Outlook - 1981 (1981).

2/ U.S. Department of Commerce/Economic Development Administration, Opportunities and Strategies for U.S. Textile Machinery Manufacturers to Improve Their Competitive Positions in Domestic and Foreign Textile Markets, 1980-1985 (1981).

expected to increase to 93 billion pounds by the early 1990's.^{3/} There is a solid U.S. worldwide market for U.S. textile machinery for which our industry must compete under adverse conditions.

Recent experience has shown that textile industries in highly industrialized countries, such as Canada, England, Japan and those of Western Europe have limited their capital investments in textile machinery to modernization, rather than expansion. The substantial growth in textile manufacturing markets has occurred in the less developed countries of the Far East, Near East, Africa and Eastern Europe, requiring all textile machinery manufacturers to look to less developed countries as the best potential markets of textile machinery. It is estimated that these countries will increase their share of the textile machinery market from 36 percent at present to 52 percent by the year 2000.^{4/} In these markets, however, the need for a variety of financing plans, flexible credit arrangements, additional start up services, as well as aggressive salesmanship must be met if American manufacturers are to capture and hold a significant share of the market.

The U.S. textile machinery industry can compete technically for sales in growing world markets. If these sales opportunities are met, the domestic industry will be in an enhanced position to finance additional research and development to provide the next generation of equipment to U.S. customers. With imaginative government action, the domestic textile machinery industry will be able to increase its exports, which now represent one-third of production, and simultaneously decrease the present level of machinery imports.

^{3/} Id.

^{4/} Leesona Corporation (1980) (unpublished study).

The erosion of the U.S. textile machinery industry's position vis-a-vis foreign competitors is paralleled by the general decline of U.S. exports over the last 20 years. U.S. exports have grown at only half the rate of other industrialized nations and the American share of the world export market has dropped from about 18 percent in the early 1960's to 13 percent today. ^{5/} Thus, export trade policies must be directed to both the peculiar problems of small business exporters, such as ATMA members, and the general problems experienced by exporters of all sizes.

II. ADEQUATE AND COMPETITIVE FINANCING ARRANGEMENTS
ARE NOT AVAILABLE TO SMALL AND MEDIUM-SIZED
EXPORTING BUSINESSES

A. Eximbank Financing Can Make a Difference to Small Business
Exporters

The need for Eximbank to provide financing to textile machinery producers is particularly acute because the industry is composed of small businesses. ^{6/} Nonetheless, export sales constituted 36 percent of total sales by domestic textile machinery manufacturers in 1979. ^{7/} Many firms are not able to undertake export activities without financing, and oftentimes commercial financing is not available. Because smaller firms generally lack both the financial resources individually to undertake an export venture and the assets to secure commercial financing, Eximbank is the only alternative source. Without the Discount Loan Program, most small and medium-sized exporters could not secure medium term, fixed rate financing.

^{5/} Department of Commerce, International Trade Administration, Office of Policy Planning and Analysis (1981).

^{6/} ATMA has 125 members, who employ a total of approximately 16,000 persons. Average ATMA firm size is only 128 persons.

^{7/} U.S. Department of Commerce/Economic Development Administration, Opportunities and Strategies for U.S. Textile Machinery Manufacturers to Improve Their Competitive Positions in Domestic and Foreign Textile Markets, 1980-1985 (1981).

Competitive, fixed rate financing is essential to the domestic textile machinery industry's efforts to compete with foreign manufacturers and reverse the trend of the last decade that has seen the American industry's share of the world textile machinery market decrease from 9.9 percent to 6.6 percent. ^{8/}

Through the Discount Loan Program, Eximbank provides advance commitments to commercial banks that are willing to make fixed rate, medium term (up to five years) financing available for smaller export transactions (limited to less than \$5 million). The commercial bank must certify that it would not make a fixed rate loan without an Eximbank advance commitment. (Eximbank makes Direct Loans in support of export sales generally requiring repayment terms of more than five years. A typical financing pattern for Direct Loans is 15 percent cash payment by the foreign purchaser, a portion of the remaining 85 percent financing provided by a commercial source, and the balance provided by Eximbank.)

Eximbank plays an important part in helping domestic industries enter export trade or expand their export activity, and is essential to the success of the textile machinery industry's current and future export trade development. Eximbank's available credit must be sufficient to meet the needs of domestic firms, including textile machinery manufacturers, seeking to export products or to expand existing export business.

Attachment III contains a summary of transactions made possible by Eximbank financing for one textile machinery manufacturer, Leesona Corporation, during just the last 5 years. Eximbank's participation in that company's export efforts translated into machinery sales of over \$15 million and employment for over 300 persons.

^{8/} Id.

For each of the last five reported fiscal years, ^{9/} Eximbank has made more than 50 percent of its loan authorizations through the Discount Loan Program. The total amount of dollars authorized through the Discount Loan Program is less than that provided through Direct Loans, but the Discount Loan Program assists a greater number of exporters. Although both programs contributed to the recent strong showing of U.S. exports, the Discount Loan Program has the potential to provide crucial assistance to far more exporting firms, particularly smaller firms.

B. Eximbank Has Insufficient Funds to Meet its Objectives

The most significant deterrent to exportation in recent times is the limited availability and high cost of financing. It is not enough to desire to export when foreign competitors are receiving assistance in a wide variety of forms, all of which are intended to facilitate exportation of their goods. Most foreign competitors have access to an abundant supply of below market rate financing, while U.S. exporters are saddled with a shortage of money for financing exports, even at prevailing or above market rates. These facts of business life extend to all firms, both small and large, but small businesses are particularly affected because of their inability to secure alternative financing or to underwrite export projects singlehandedly. Many small firms rely on Eximbank to provide financing in order to compete with foreign firms. However, Eximbank's prevailing interest rate is not competitive with that offered by foreign nations' credit agencies. We believe that Eximbank could serve as the financing agent for a greater number of small businesses that have products to export, but who are seriously hindered by the cost of available financing.

The Export-Import Bank Act provides that the Export-Import Bank shall be self-sufficient and offer competitive financing rates, and these two goals have caused

^{9/} Export-Import Bank of the United States, Annual Report (1980).

difficulty for Eximbank. ^{10/} A recent report by the General Accounting Office [GAO] highlighted this dilemma and, in fact, the GAO concluded that these two objectives simultaneously are unattainable in an era of high interest rates. Eximbank is forced to choose, in essence, between operating on a sound financial basis to maintain self-sufficiency or aggressively competing with foreign credit agencies to offer comparable below market rate financing. Eximbank's limited financing capability is especially deleterious to small exporters. When Eximbank financing is not available, such exporters lose sales or make alternative, less desirable arrangements to counteract foreign competitors' credit terms.

ATMA supports additional funding for the Discount Loan Program that would permit Eximbank to make financial commitments at reduced interest rates that are not possible with existing authorizations. Even if additional funds for the Discount Loan Program were authorized at the expense of a corresponding amount in the Direct Loan Program, ATMA would be supportive. Direct Loans are committed to long term, large transactions involving large corporations. These firms are better able to secure commercial financing, or underwrite the project without assistance, than are small businesses utilizing Discount Loans.

Insufficient funding of the Discount Loan Program or the uncompetitive, high interest rates that accompany excessive demand on the program, will have two direct consequences:

1. U.S. exporters will lose sales to heavily subsidized foreign competitors, and
2. U.S. exporters will not be able to expand into new markets.

^{10/} General Accounting Office, To Be Self-Sufficient or Competitive? -- Eximbank Needs Congressional Guidance, ID-81-48 (1981).

Such results will adversely affect the U.S. balance of trade, domestic employment and industrial growth. In addition, without growth capital derived from export sales for future research and development and expansion, the declining position of the domestic textile machinery industry will also affect U.S. textile mills: increasingly U.S. mills will be subject to foreign machinery pricing practices and dependence on off-shore technology.

The Discount Loan Program reaches more exporters with fewer dollars than other Eximbank programs. This Congress, and the Administration in particular, are aware of the need to expend our resources as efficiently as possible. Proportionately, the greatest effect on Eximbank's budget may be achieved through additions to the Discount Loan Program.

As a result of a new international Arrangement on Officially Supported Export Credits [Arrangement], the 22 participating nations ^{11/} agreed to increase minimum interest rates on government supported export credits. For all currencies but the yen, the minimum interest rate to lesser developed countries is 10 percent. For the yen, the minimum rate is 9.25 percent. ^{12/} In November 1981, Eximbank raised its discount loan rate to 12 percent from 10.75 percent. ^{13/} The 12 percent rate and surcharge on discount loans results in an effective interest rate over 20 percent above the standard minimum rate under the Arrangement and over 30 percent above the yen rate.

^{11/} Participating countries are as follows: European Economic Community (10 nations), Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and the United States.

^{12/} The lower minimum yen rate reflects lower interest rates in Japan.

^{13/} Eximbank also retained a two percent surcharge on its financing. Machinery & Allied Products Institute, Bulletin, Nos. 6207 and 6213 (1981).

This adverse situation had been more acute. During 1980 Eximbank was forced to counteract excessive demand on the Discount Loan Program by adding a 4 percent surcharge to the Discount Loan rate. ^{14/} That action raised the effective cost of Discount Loans from the prevailing rate of 14 percent to 18 percent, compared with the 8 percent rate typically made available through our foreign competitors. Demand by exporters for competitive loans is a positive sign, an indication of our rebounding export development. Response to this activity should not be to suppress demand through higher interest rates, but to increase the lending authority of Eximbank. Typical examples and conditions of sales lost due to the inability of U.S. companies to receive competitive financing from Eximbank appear in Attachments IV through VIII.

Domestic textile machinery manufacturers are losing sales to foreign competitors due to uncompetitive financing, not because U.S. made products are not wanted. Eximbank has played an important role in narrowing the competitive differential between domestic and foreign textile machinery manufacturers but to continue in that role Eximbank must receive sufficient funds to satisfy increasing demand by small and medium-sized exporters. Only if resources are adequate can the Discount Loan Program offer financing at interest rates that will be attractive to potential U.S. customers.

III. OTHER NATIONS FACILITATE OR ACTIVELY PROMOTE EXPORTS

A. Foreign Governments Bestow A Wide Array of Subsidies on Their Export Companies

Other nation's export credit agencies are increasingly aggressive in their pursuit of export business. Foreign credit agencies work cooperatively with exporting companies to offer terms and conditions that are more attractive than those available to

^{14/} In May 1981, Eximbank reduced the surcharge to two percent.

U.S. exporters. Such financing arrangements often include higher loan values, reduced interest rates, mixed credit terms and deferred repayment schedules. ^{15/} Our foreign competitors are able to offer such financing packages because they typically operate under beneficial arrangements with their governments. For example:

(1) In Germany, expenditures for research and development receive special tax treatment. This is part of the government's policy to enhance competitiveness in capital intensive and highly technological sectors of the economy. As a result German companies are able to market sophisticated products for which financing is a relatively minor issue. The export credit agency is actively supported by the government, and credit guarantees for coverage of 90 percent for political risks and 85 percent for commercial risks are available. ^{16/}

(2) The textile machinery industry in Italy is government supported, and this arrangement provides steady employment within the industry and ready financing for export development. Furthermore, Italy enacted legislation in 1977 that provided flexible and innovative financing to assist exporters. That law also provided the following:

- (a) financial assistance be included in the national budget,
- (b) export credit funds be raised in foreign capital markets, and
- (c) the Special Section on Export Credit Insurance [SACE] be established.

SACE also provides guarantees for buyer credits denominated in foreign currencies and issues guarantees to non-Italian banks for loans supporting sales of Italian goods and services.

^{15/} Remarks of Export-Import Director Donald E. Stingel, presented to the National Association of Manufacturers, Washington, D.C. 1981.

^{16/} Henry H. Richardson, Market Development Consultant, American Textile Machinery Association (unpublished study) (1981).

(3) In the last few years, Japan has become a force in the international textile machinery market, enjoying roughly 11 percent of the market. Japan has several barriers to imports and excellent financing facilities. From a secure home base, the Japanese manufacturers are successfully capturing international textile machinery markets.

(4) (a) In Switzerland, official support of exports takes the form of governmental credit insurance against non-commercial risks. (Two private firms insure commercial risks.) The office for guaranteeing export risks, "GERG," was established in 1934 and serves to promote exports and thereby maintain high employment. GERG covers credits extended by Swiss exporters to foreign customers and by commercial banks to exporters.

The coverage of Swiss goods and services is high, insuring up to 95 percent of the income value against political risks, and also covering risks resulting from appreciation of the Swiss franc.

(b) Swiss expenditures for research and development, totaling approximately 3.2 percent of gross domestic product, are the highest (by percentage) in the world.

(c) Investment guarantees of up to 70 percent of the amount are granted against political risks in developing nations.

(d) The prevailing interest rate on bank loans is 6 to 8 percent.

The competitive advantages enjoyed by foreign companies are particularly harmful to American textile machinery manufacturers and other domestic exporters interested in doing business with less developed countries that are presently experiencing a period of rapid expansion. These potential customers need extensive financing in order to pay for new plants and equipment. The textile industries are foremost in this category; in recent months foreign mills have reduced their purchases of U.S. textile

machinery and have given their orders instead to foreign companies who are able, because of government assistance and thus very willing to offer virtually any financing terms to obtain the business.

American textile machinery products are competitive with foreign products in terms of quality and cost. A recently completed study conducted under the auspices of the Commerce Department reported that of 15 textile machinery categories surveyed, the United States' machinery producers were leaders in six. ^{17/} The decline in the United States' share of the textile machinery world market cannot be explained by inferior products.

Many of our foreign competitors concentrate on export sales and, with substantial governmental assistance, consistently underprice American companies, including textile machinery manufacturers. All of our major competitors export more textile machines than are purchased by their own nations. Attachment I reveals the disproportionate emphasis foreign textile machinery producers place on export sales. Attachment II presents a stark picture of the prevalence of government subsidies, favorable financing and other advantages that are provided to our foreign competitors. The ability of U.S. exporters to survive, let alone prosper, in such a business environment is doubtful.

B. U.S. Firms Should Be Encouraged to Develop Export Trade

U.S. governmental responses to inequitable foreign trade practices must be made at several levels. Actions to facilitate export trade or provide incentives to exporting that should be considered include, inter alia, the following:

17/ U.S. Department of Commerce/Economic Development Administration, *Opportunities and Strategies for U.S. Textile Machinery Manufacturers to Improve Their Competitive Positions in Domestic and Foreign Textile Markets, 1980-1985*. (1981).

(a) raising the loan limit available under Eximbank's Discount Loan Program or, alternatively, reducing the minimum dollar amount required for favorable financing terms under the Direct Loan Program (which now requires larger loan amounts);

(b) targeting specific industrial segments of the economy for additional export trade assistance. Such assistance might be directed to distressed industries, or to small businesses, that have substantial export trade opportunities;

(c) providing incentives to export trade through tax credits or exemptions to export trading companies and associations that expand existing markets or develop new export markets. Such incentives also might be provided by increasing tax credits for research and development to produce new goods and services for exportation; and

(d) providing more flexibility to smaller firms seeking to raise capital in order to finance export ventures. Such firms now must seek financing from traditional sources (e.g., commercial banks, Eximbank) that are unable to offer financing at terms competitive with that made available to foreign competitors.

IV. STATUTORY AND LEGAL IMPEDIMENTS TO EXPORTING

National policies and laws act to deter and discourage exportation of goods by small and large businesses alike. These provisions affect companies disproportionately, largely depending on the company's ability to cope with the particular set of problems presented by any single statute. Such policies, legislation and regulatory programs include foreign policy controls, the Foreign Corrupt Practices Act, antitrust

statutes, anti-boycott legislation, and the statutory language of the Export-Import Bank Act of 1945.^{18/}

A. Antitrust Laws

Under U.S. antitrust laws, actions occurring in foreign countries which have substantial and foreseeable effects on domestic commerce are subject to U.S. antitrust jurisdiction. Many businessmen complain that the antitrust laws inhibit their overseas activities. The major problem is the uncertainty of application of antitrust laws. Businessmen, reluctant to risk antitrust violations, limit their involvement in international business activities and thus lose possible export opportunities.

A major area of uncertainty for businesses is the establishment by U.S. firms of consortia to bid on foreign projects. The Webb-Pomerene Act^{19/} provides an antitrust exemption for domestic firms combined in an association for the export of "goods, wares, merchandise" under certain, specified conditions. However, the law does not include a similar exemption for the export of services, a potential area of significant export growth for all U.S. exporters looking to less developed countries for increased sales.

B. Anti-Boycott Statutes and Regulations

Anti-boycott amendments to the Export Administration Act and the Internal Revenue Code contain overlapping and inconsistent prohibitions, exceptions, reporting requirements and sanctions. Antitrust law imposes still a third set of legal constraints. The resulting complexity of the regulations creates confusion and uncertainty that complicate the international activities of exporters and inhibit potential exporters from entering the export field.

^{18/} 12 U.S.C.A. §§ 635 *et seq.* (1981).

^{19/} 15 U.S.C.A. §§ 61-66 (1981).

C. Foreign Corrupt Practices Act

Uncertainty about the meaning of certain provisions of the Foreign Corrupt Practices Act [Act] and about Department of Justice and Securities and Exchange Commission [SEC] enforcement policies inhibit many international business transactions. These ambiguities create large risks which may force them to forego certain business opportunities. The Act in addition imposes criminal penalties for bribery of a foreign official.

D. Indirect Effects on the Cost of Competitiveness of U.S. Exports

There are many Federal laws and regulations which do not directly affect exports, but which require substantial capital and other expenses by U.S. companies. When price increases are passed on, the result is reduced competitiveness of U.S. exports. Prominent examples include: the Clean Air Act, the Federal Water Pollution Control Act, the Occupational Safety and Health Act, the Toxic Substances Act, the Consumer Product Safety Act and the Employment Retirement Income Security Act [ERISA].

We are aware of efforts by Congress and the Administration to alleviate some of the hardships inadvertently caused by legislation. Affirmatively, Congress has made progress towards the passage of effective export trading company and export trading association legislation that would promote and facilitate such export trading ventures. The amount of bureaucratic "red tape" and procedural hurdles required of any business, small or large, to export its goods must be streamlined.

These efforts are steps in the right direction, but no one amendment or set of revised regulations will make the difference for U.S. exporters. It is essential that broad relief be granted from the obstacles that discourage exporting, which in turn will induce greater numbers of firms to export, and thereby enhance the United States' overall productivity and balance of trade.

V. LEGISLATIVE PROPOSALS

Pending before Congress are several legislative initiatives designed to address the problems outlined above regarding small business exporters and their foreign competition. No single bill will remedy the problems hindering U.S. exporters' attempts to develop world export trade markets. Congress and the Administration must develop a trade policy that encourages U.S. businesses to export goods and services and promotes the establishment of new export business and the expansion of existing export markets. ATMA supports the following proposed legislation which, if passed, would provide such encouragement and facilitate export trade:

(1) S. 868, which provides for the establishment of a credit subsidy fund within the Export-Import Bank that would provide financing to U.S. exporters comparable to the favorable interest rates and credit arrangements that are available to foreign competitors. The House is considering similar legislation, H.R. 3228, which would authorize Eximbank to engage in the use of extraordinary measures of export finance to counter the use of export credit subsidies by foreign credit agencies. If passed, these proposals would provide an initial appropriation of \$1 billion to be used exclusively for such purposes.

(2) S. 734, which the Senate has passed by unanimous vote, would facilitate the formation of U.S. export trading companies and Webb-Pomerene associations, and allow for increased participation in such operations by banking institutions. The House currently is considering two bills which correspond to S. 734 (H.R. 1648 and H.R. 1799). A consensus now exists in the House that such legislation is desirable and the final version of export trading company legislation probably will include provisions to promote a wide variety of export services to small and medium-sized companies that either do not export at the present time or export far below their potential.

(3) The "Foreign Trade Antitrust Improvements Act" (S. 795 and H.R. 2326), which, if passed, would amend the Sherman and Clayton Antitrust Acts to exclude from the application of those acts certain conduct involving exportation of goods. Specifically the act would amend the Sherman Act to prohibit only conduct which has a "direct and substantial" effect on commerce within the United States or on a domestic firm competing for foreign trade, and would amend the Clayton Act to protect joint ventures that are limited to export trading. Such legislation also would expand the antitrust exemption under the Webb-Pomerene Act, ^{20/} which now includes only "trade or commerce in goods, wares or merchandise exported," to cover "services" exported.

(4) H.R. 3159 (and S. 488), which would provide a 10 percent federal tax credit to small businesses for research and development expenditures. Such tax incentives would facilitate the production of the next generation of technologically advanced products for a growing number of U.S. customers.

(5) S. 970, which would establish a cabinet level Department of International Trade and Investments and place greater emphasis on the national trade policy of the United States. Such legislation would consolidate all non-agricultural trade and investment analysis, policy, negotiation and implementation functions in one department, and combine the U.S. Trade Representative's Office with the current international trade investment functions of the Commerce Department.

These proposals represent legislation which, if enacted, would enable U.S. exporters to compete more effectively with foreign firms that enjoy substantial competitive advantages granted by their own governments.

^{20/} 15 U.S.C.A. §§ 61-66 (1981).

FOREIGN MACHINE MANUFACTURERS HAVE HIGH VOLUME
SALES * FOCUSED ON EXPORTS

(Approximate Textile Sales (only) in Millions \$ U.S.)

BELGIUM/FRANCE:	PICANOL S.A.C.M.	\$230 (95% Export)
CZECHOSLOVAKIA:	INVESTA	\$500 (High % Exports)
WEST GERMANY:	BARMAG SCHLAFHORST SCHUBERT & SALZER TRUTZSCHLER	\$650 (85% Export)
SWITZERLAND:	RIETER RUTI SULZER	\$700 (95% Export)
JAPAN:	MURATA NISSAN	\$275 (High % Export)

* Grouped to avoid specific company disclosures.

Source: U.S. Department of Commerce/Economic Development Administration,
EDA Grant Nos. 99-26-07052-10, 99-26-07111-10, May 1981.

SUMMARY - CHARACTERISTICS OF PRIMARY FOREIGN COMPETITORS

MARKET ORGANIZATION COMPARISON

COUNTRY	PRODUCT RANGE	MARKETING ORGANIZATION	ADVANCED TECHNOLOGY	FINANCING	ACADEMIC PARTICIPATION	TRENDS
WEST GERMANY	Broad-High technology, precision engineer.	Separate, but close contact (many boards have same memb.) unionmatex (100+ companies, 115 reps.)	Knitting, Dye, finish, print texturing fiber production wind/twist	Close Bank contact, low interest when paid in DM (6-8%)	Very Strong	Acceler. trend to U.S. manufactur. Consolid. into larger companies. 25% R&D by cash grant from government
SWITZERLAND	Broad - "Cadillac" tech.	Separate, but maintain close contacts (industrial club, etc.)	Weaving short staple warp prep. equip. controls	Guaranteed stable exchange rate in 8 close bank contact - low interest when paid in DM or SF (6-8%)	Significant	Establish U.S. manufacturing companies
ITALY	Moderate-lagging in technology	E.N.I.: Savio Cognetex, Tematex, N. San Giorgio Matec	Winding long staple weaving	Variable: government subsidies of significant magnitude	Not as strong	R&D government cash grant to Savio; new R&D facility
JAPAN	Specialized categories	Holding compan. Mitsubishi, Nissan, Toray, etc.	Weaving wind/twist textur. knitting	Trading co./banks close relationships	Not as strong	Favor licensing
COMMUNIST BLOCK	Broad tech. base, poor machinery construct.	State directed INVESTA	O.E. Spinning Shuttleless	Low payment terms	Not as strong	Unpredictable

Source:

U.S. Department of Commerce/Economic Development Administration, EDA Grant Nos. 99-26-07052, 99-26-07111-10, May 1981.

Attachment II

- 19 -

Summary of Financial Assistance and
Increased Employment to Leeson Corporation
Attributable to Eximbank (1976-1980)

FINANCIAL ASSISTANCE

	<u>Granted Finance Requests</u>	<u>Machinery Value</u>	<u>Financial Value</u>
1976	15	\$ 2.8 mil.	\$ 2.3 mil.
1977	12	\$ 2.4	\$ 1.9
1978	8	\$ 2.0	\$ 1.5
1979	18	\$ 3.7	\$ 2.9
1980	<u>14</u>	<u>\$ 4.6</u>	<u>\$ 3.7</u>
5 yr. TOTAL	67	\$15.5 mil.	\$12.3 mil.

INCREASED EMPLOYMENT

	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
1976	26	13	39
1977	44	20	64
1978	30	10	40
1979	53	25	78
1980	<u>62</u>	<u>26</u>	<u>88</u>
5 yr. TOTAL	215	94	309

Source: Compiled by W.E. Turner, President, Textile Machinery Group, Leeson Corporation, Warwick, Rhode Island.

**Lost Sales Due to Eximbank's Inability
to Offer Competitive Financing**

Specific Instances

1. Platt Saco Lowell Corporation [PSL] (an American textile machinery manufacturer) quoted prices to company X in Ecuador for nine spinning frames. Total value of the transaction was about \$350,000. The order was placed with Spain because it had available an interest rate of 9.5 percent per annum including insurance fees.
2. Company Z, a large U.S. textile corporation insisted that purchases from Platt Saco Lowell be made through the company's English affiliate rather than the U.S. firm because the English company could secure financing at 9.75 percent per annum.

General Conditions

1. Many of PSL's customers, especially those in Latin America, prefer to purchase American equipment because of our close proximity to their plants and better ability to service the equipment. However, due to high interest rates at Eximbank, many of the customers have been placing orders for European equipment in order to take advantage of low, government subsidized interest rates.
2. PSL has a problem when quoting customers for orders valued at less than the minimum amount required for Eximbank project loans. Customers insist on financing and refuse to pay U.S. interest rates. In all cases these customers have received competitive quotes from manufacturers in Germany or Switzerland at interest rates under 10 percent per annum. In order not to lose recent sales PSL has quoted for shipment from England even though customers would prefer American equipment if comparable financing terms could be offered.

Source: Information provided by O.E. Garner, Marketing Commercial Director, Platt Saco Lowell Corporation, Greenville, South Carolina.

Lost Sales Due to Eximbank's Inability
to Offer Competitive Financing

Specific Instance

Gaston County Dyeing Machine Company [GC] (an American textile machine manufacturer) quoted \$4,300,000 worth of machinery to a company in Mexico (PITSA). The equipment quoted consisted of 19 of the largest type dyeing machines. Even though the equipment was quoted at a price that represented a very low profit margin and the customer declared to have a strong preference for the American product, the sale was lost to a German competitor due to the fact that the total cost to the Mexican customer was \$650,000 less than GC's offer.

The principal factor resulting in the lost sale was the cost of the U.S. financed portion, which had to be calculated at the rate of 15% interest, and represented \$1,300,000.

The German competitor company offered the following conditions of payment:

10% with order, 10% against shipping documents and 80% in 60 equal monthly payments (5 years) bearing no interest.

We conclude that the German competitor had to have a very low rate of financing to be able to offer the equipment at the conditions described.

General Conditions

The above example was personally verified by one of our representatives who also had opportunities to read other quotations from different European competitors offering similar payment conditions.

Source: Information provided by Harold D. Wilson, Vice President, Sales and Marketing, Gaston County Dyeing Machine Company, Stanley, North Carolina.

Lost Sales Due to Eximbank's Inability
to Offer Competitive Financing

Specific Instance

Gaston County Dyeing Machine Company [GC] (an American textile machinery manufacturer) quoted machinery in the amount of \$2,361,604 to an Egyptian customer, Misr El Amria Spinning and Weaving Company, of Alexandria, Egypt. The equipment consisted of a four-stage rope bleach range.

The machinery was quoted at a price that represented a very low profit margin, and the customer preferred the Gaston County product, however, the sale was lost to a Dutch company who could provide the equipment at \$126,247 less than GC's price, or approximately 6.4% cheaper.

Terms of payment offered by the Dutch company were 9-1/2% interest semi-annually over a period of five years, with the first installment due six months after the completion of all deliveries.

The ability of the Dutch company to offer the much lower interest rate than GC could offer was of course the deciding factor.

General Conditions

It is our conclusion that even though many of our foreign customers prefer to receive American-made products, the economics of dealing with companies in countries that subsidize financing is the foremost consideration. The potential for exporting is very good if we can offer reduced interest rates to foreign customers.

Source: Information provided by Harold D. Wilson, Vice President, Sales and Marketing, Gaston County Dyeing Machine Company, Stanley, North Carolina.

Lost Sales Due to Eximbank's Inability
to Offer Competitive Financing

Specific Instances

1. Barber-Colman Company [B-C], an American textile machinery manufacturer, quoted prices to P. T. Bogasari in Indonesia for warp preparation machinery. Total value of the project was \$350,000. The B-C salesman was informed by the customer and his banker that the only way to be considered would be with financing equivalent to that offered by the Japanese and Europeans.

2. B-C proposed single-end sizing machinery valued at approximately \$500,000 to P. T. Ficosyn - Indonesia. Mr. Gozali, President of the firm, stated that our offer must include competitive financing terms or that we should not bother to formalize the quotation.

3. P. T. DanLiris - Indonesia, is to purchase warp preparation machinery totaling \$350,000. The B-C salesman visited this customer with a card machinery salesman whose firm is located in Great Britain. The other salesman was offering an 11% total interest, with initial payment deferred one year, and term of loan was 5 - 7 years. B-C's offer included 18% interest.

General Conditions

1. The ATMA sponsored World Market Survey identified Indonesia as the most promising market in the Far East for warp preparation machinery. Indonesia, the fifth most populous nation, is now engaged in modernizing and expanding their textile industry to developed nation standards. The potential for textile machinery sales will be tremendous.

2. B-C is a world-recognized leading supplier of warp preparation machinery, with more than 75 years in export sales' history.

3. The B-C representative in Indonesia who also represents European textile machinery firms, has stated that the only way U.S. firms can compete in this market is to offer financing competitive with that offered by European and Japanese firms. Nine out of ten Indonesian companies require financing to buy new machinery.

Source: Information provided by Rodger E. Hartwig, Director of Sales, Barber-Colman Company, Gastonia, North Carolina.

Lost Sales Due to Eximbank's Inability
to Offer Competitive Financing

Specific Instances

1. Company "A" (Brazil)
We were told we would not be eligible for the business (approx. \$160,000) unless we could offer competitive financing (7-12% for five years from Cognetex). Obviously, we have not found competitive financing.
2. Company "B" (Ecuador)
Warner & Swasey was only a small part of the total package estimated at \$1,500,000. An Italian firm won the business by offering 8% for five years. The salesman for the Italian company was authorized to grant this credit on the spot. He did not have to consult his office or the banks.

General Conditions

1. Peru: There exists an agreement between Banco Industria and J. Henry Schroeder (Wagg & Company, Ltd., London) covering the financing of only British textile machinery.

Terms:

5% at contract signing
10% against shipping documents

85% loans

\$50,000 - 95,000 - 2 years (U.S. dollars)
\$95,000 - 185,000 - 3 years
\$185,000 - 250,000 - 4 years
\$250,000 - up - 5 years

10-11% annual interest rate contract can only be written in \$ U.S.

2. Regionally: We are being told repeatedly throughout Latin America that Italian competitors are offering 7.5% - 8% financing for five years. These terms apply to competitors across the board: long staple, rope and cordage equipment. In many cases we are by far the technical winners but the financing is so lucrative the buyers cannot refuse.

Source: Information provided by Vincent S. Putiri, General Manager, Warner & Swasey Textile Machine Company, Bessemer City, North Carolina.

DESCRIPTION OF EXPORT CREDIT AND INSURANCE PROGRAMS

ACKNOWLEDGEMENT

We are gratefully indebted to the Export-Import Bank of the United States for the data included in the country surveys covered in this booklet.

PREFACE

ATMA has prepared this analysis of payment and other support conditions available to machinery manufacturers in producing countries. The object is to make known the competition we face in this area and to compare the United States facilities available. Where the U.S. is lacking, a strong voice must appeal for adjustment to give us at least equal status. The voice of ATMA must be clear and vigorous.

Consideration must be given to other areas of competition. Redefined, competition could be termed "any force, action, or lack of action which prevents the sale of a firm's equipment." This definition goes beyond the classic head-to-head conflict with firms manufacturing similar equipment. This definition makes it quite clear that our competition can be our own salesman who "did not think they had the money." It could be our own quality control man who figured "it will get by." It could be our own customer who has vigorously fought against the use of Export-Import or AID money in the establishment of mills overseas. The concept was that this would be more competition. The fact of the matter is these mills were built. Nine out of ten were by Europeans who thus earned the wherewithal to do the research and development necessary to better technology. It behooves us to look at all the possible ramifications of this new definition of competition and correct situations which apply.

Above all, the financial management of competing countries has a more distinct awareness of the need to export than is felt in the U.S. What might appear as non-competitive commercial terms, costly to the exporting country, has the effect of continuing people on employment rolls instead of welfare rolls. This eliminates the hundreds of sociological influences resulting from the distemper of unemployment.

The members of ATMA and of other industries must accept the mantle of responsibility for educating those who make and administer policy in the U.S.

Eugene M. Kennedy, President
American Textile Machinery Association
and, President, Sales Division
Whitin Roberts Company

FRANCE

The French Government administers one of the most comprehensive and competitive export credit systems in the world. A high degree of government involvement in the export sector, as in virtually all sectors of the French economy, can be traced back to the post-World War II reconstruction period.

The French export credit system is unique in that it is centralized, yet appears to be flexibly managed, and is capable of providing exporters with financing terms and conditions suited to individual transactions. The French system can be described as an "entitlement" system; it is open-ended in terms of budgetary costs. The exporting sector is a priority sector in France and, in the view of the government, deserves unlimited government assistance.

The French Government considers its extensive official export support to be a necessary and positive feature. Such support helps compensate for what the French regard as weaknesses in the domestic economy which put the exporting community at a competitive disadvantage. The French capital market and commercial banking system are not as well developed as those in several other major trading nations. The commercial banking sector is at the heart of the export system, and government intervention is deemed necessary to keep the banks active by making their business both profitable and risk-free. Domestic interest rates are relatively high, and official intervention is considered necessary to keep them in line with rates in other industrialized countries. Therefore, the government, by providing fixed-rate export financing at reduced rates and subsidizing a comprehensive insurance and guarantee program, administers what is, perhaps, the most costly export credit system among the industrialized nations.

OFFICIAL EXPORT CREDIT INSTITUTIONS

The Directorate Relations Economique Extérieure (DREE), an agency of the French Ministry of the Economy, is the policy-making agency regarding official export credit support.

The three institutions which actually provide official support for French exports operate under the direction of DREE:

*Bank of France - provides official discounting for export credits with medium repayment terms from 18 months to seven years.

*BFCE (Banque Française du Commerce Extérieur) - for longer-term export credits, through direct loans or by discounting credits extended by banks to French exporters.

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*COFACE (Compagnie Francaise d'Assurance pour le Commerce Exterieur) - provides credit insurance and guarantees for commercial and political risks. COFACE cover is mandatory for all transactions benefiting from preferential financing and having a repayment term exceeding three years. During 1979, the percentage of French exports receiving official credit support was 30 percent of total exports.

The programs of support offered under the French export credit system are as follows:

- *export credits for medium- and long-term transactions in line with OECD Arrangement's minimum interest rates
- *mixed credits
- *export credit insurance and guarantees
- *inflation insurance
- *exchange risk insurance, and
- *contractor guarantees, and performance and bid bonds

MEDIUM-TERM PROGRAMS*

*(Long- and Short-term Program data is omitted as being not pertinent to textile machinery transactions.)

Financing

Essentially, all medium-term exports (18 months to seven year repayment terms) receive preferential fixed-rate financing. Commercial banks provide both supplier and buyer credits at fixed interest rates set in accordance with the OECD Arrangement. The banks, after receiving an endorsement from BFCE, can rediscount between 61 and 81 percent of each loan (depending upon repayment term and base lending rate) at the subsidized rate of 4.5 percent. The Bank of France's rate of 4.5 percent remains constant, but the percentage of each loan that may be discounted varies with the base lending rate charged by commercial banks. The portion of the credit not discounted with the Bank of France is financed by the commercial banks at their lending rate. Participating banks are assured of a rate of return of 0.75 percent per annum above their base lending rate on the portion not refinanced by BFCE.

Insurance and Guarantees

COFACE commercial risk coverage is required for all transactions involving preferential-rate financing with repayment terms over three years. During 1979, COFACE insured medium-term transactions amounting to \$13,456 million.

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Two policy options are available for medium-term transactions:

- *a whole-turnover commercial risk policy with optional cover for political risks
- *an open policy covering political risks and, where necessary, commercial risks

For supplier credits, COFACE will cover 90 percent of the financed amount against political risks and 85 percent against commercial risks. The latter coverage may be increased to 90 percent if the transaction is guaranteed by a bank acceptable to COFACE.

A COFACE premium has both a visible and a hidden component. The visible component - which is added directly to the interest rate charged for the financing - is set at one of the following levels:

- *0.25 percent - for political risk coverage on sales to private buyers
- *0.50 percent - for commercial and political risk coverage on sales to:
 - 1) public and publicly-guaranteed buyers, and 2) private buyers who are specially qualified by COFACE, or who are guaranteed by a COFACE-approved bank, or
- *0.85 percent - for commercial and political risk coverage on sales to unguaranteed private buyers

In addition, a variable hidden fee to cover individual market risks is charged. COFACE computes this fee on a case-by-case basis and requires that the exporter factor it into the contract price. According to conservative estimates, the total COFACE premium is believed to add, on average, about 0.85 percent annually to the cost of an officially-supported export credit.

ADDITIONAL PROGRAMS/PRACTICES

Foreign Content

COFACE insurance, as well as official credit, will cover foreign content up to a maximum value of 40 percent of the contract price if the foreign portion is from another EC-member country. Non-EC countries that have a reciprocal agreement with France may have their components covered up to a 30 percent maximum, the ceiling for all other countries is 10 percent.

Performance and Bid Bond Guarantees

Bid bond guarantees are provided by COFACE under a separate policy and cover the bidder's liability in the event of withdrawal before starting construction. Performance bond guarantees are incorporated into the standard credit insurance policy and cover the same risks. Bid and performance bonds cover the financial portion of the contract and are underwritten for a maximum of 15 years.

Local Cost Support

Extensive support for local cost financing is provided by COFACE and, to a lesser degree, by BFCE. COFACE insurance is available to cover local cost financing provided by commercial banks up to the amount of the cash payment. This coverage is part of the normal COFACE credit insurance and is extended at the same premium rates. BFCE will, on occasion, extend credits to foreign buyers for local costs associated with a French export, but only in connection with exports to developing countries.

Mixed Credits

The French mixed credit program has proved to be both the most-effective and most-controversial component of the official support scheme. By definition, a mixed credit is a combination of officially-supported export credit and foreign aid that yields an overall financing package with concessional rates and terms. Up to 50 percent of the contract value may be provided on development aid terms, with interest as low as three percent and repayment over a 25-year period.

Although this practice is frowned upon by some, it is in keeping with the terms of the Arrangement of the OECD Export Credit Group. Mixed credits provide the LDCs with extremely favorable credit terms and promote French exports. They have proved to be a very effective marketing tool in such LDC markets as Mexico and Brazil.

France reported granting 14 mixed credits during 1979 and seven more during the first half of 1980. These credits were extended to developing countries in Africa, the Middle East, Asia and South America and had a total export value of \$2395 million with the concessionary aid accounting for \$265 million. The most typical interest rate on the aid portion of the credits extended in 1979 was 3.5 percent with a 20-year repayment. Mixed credits accounted for 10 percent of all official export credit extended by France in 1979.

Incidentally, many of France's major competitors are in the process of designing and implementing their own mixed credit scheme.

Exchange Risk Insurance

COFACE provides insurance against exchange rate fluctuations that adversely affect a French manufacturer's export receipts, purchases of imported goods, or services required for an export contract, or liability under a performance bond denominated in a currency other than francs. Exchange rate cover is provided only if an exporter is unable to negotiate a contract in francs and if a forward exchange contract is unavailable. Realized losses of over 2.25 percent are reimbursed by COFACE under the policy. Premiums charged range from 0.3 percent per annum for currencies within the EC "snake" to 0.65 percent per annum for other convertible currencies.

Inflation Insurance

This cover allows a French exporter to insure against production cost increases that exceed 6.5 percent annually. Contracts for capital goods exports with a value of at least 1 million francs (\$195,000), and requiring two years or more to produce are eligible for cover. The premium for this coverage is one percent per annum, plus a variable surcharge based on the exchange rate of the franc against the standard drawing right. Demand for coverage under this policy is strong.

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ITALY

The Italian Government, realizing the crucial impact of foreign trade on the Italian economy, feels compelled to assist the private sector in the exporting of goods and services.

An Export Financing Regulation (Law No. 227), passed in May 1977, introduced flexible and innovative approaches for assisting exports over a broad spectrum. It established two agencies within the Interministerial Committee for Economic Planning: CIPES, which coordinates governmental export assistance and development aid policies; and SACE (Special Section on Export Credit Insurance), an independent government agency that administers Italy's official export credit insurance and guarantee programs.

The positive influence of Law No. 227 is indisputable. It calls for assisted financing to be included in the national budget, the raising of export credit funds in foreign capital markets, and the establishment of SACE. Among the various provisions outlining the operations of SACE, the most significant one allows SACE to provide guarantees for buyer credits denominated in foreign currencies and to issue guarantees to non-Italian banks for loans supporting sales of Italian goods and services.

OFFICIAL EXPORT CREDIT AND INSURANCE INSTITUTIONS

Official support for exports is provided by Mediocredito Centrale and SACE. Mediocredito, a public financial institution, works with Italy's special medium- and long-term institutions and commercial banks, both foreign and domestic, and provides competitive financing by granting interest rate subsidies and by refinancing credits extended by these institutions.

SACE is legally a part of INA, the state-owned insurance group. SACE issues authorizations for export credits with maturities of up to seven years; its insurance cover is guaranteed by the Italian treasury. The percentage of Italian exports covered by SACE was approximately 13 percent in 1979. Mediocredito offered interest rate support for approximately seven percent of Italian exports in 1979.

The basic programs offered through Italian export credit agencies include:

- *preferential rate financing for transactions over two years;
- *insurances for short-, medium-, and long-term commercial political risks;
- *local cost financing; and
- *performance bonds.

EXPORT CREDIT AND INSURANCE PROGRAMS AS OF NOVEMBER 30, 1980Financing

Mediocredito Centrale has the responsibility of providing assistance for medium- and long-term export credits to suppliers and buyers.

A). Transactions Eligible for Official Financial Support Credits financed in lire.

1. Medium- and long-term institutions' export credit operations.

Credits Financed in Foreign Currency

1. Credit operations financed by Italian and medium- and long-term institutions;
2. Financing obtained abroad by Italian enterprises against supplier of goods and performance of services, etc.;
3. Loans directly obtained abroad by foreign purchasers or customers and loans granted by foreign credit institutions and banks;
4. Transactions with other EC countries are not eligible for support, i.e., interest cost cannot be less than the official discount rate, currently 16.5 percent.

B). Percentage of Contract Value Financed

Eighty-five percent of most contracts may be financed; this is the maximum allowed.

C). Repayment Terms Supported

Credit under five years represent the large majority.

D). Interest Rates and Other Costs of Financial Packages

For contracts denominated in lire, interest rate schedule on export credit officially assisted through Mediocredito consists of two basic interest rates: 8.50 percent for up to five years and 9.35 percent for over five years.

E). Support Intervention

Refinancing of export credit transactions may be available by Mediocredito. Current practice, however, is for Mediocredito to refinance a part of the credit amount and to provide an interest subsidy on the remaining part. Operations financed in foreign currency are supported only in the form of interest subsidy.

Whatever the form taken by Mediocredito intervention, its purpose is to make up the difference between the market rate and the subsidized rate charged to the borrower.

Transactions Eligible for Support Intervention

Export of goods and services, contract work abroad, surveys and preparation of projects and buyer credits to foreign buyers.

Percentage of Obligations that may be Refinanced

Extent of refinanced portion of obligation may reach 85 percent.

F). Financial Resources of Mediocredito Centrale

Complete support of Italian Treasury through an endowment fund of 1,350 billion lire, and funds for the disbursement of interest subsidies. In addition, authority to borrow from Italian and foreign institutions; such operations are guaranteed by the State which also covers the difference between their cost and the interest rate on the financing of the institutions.

Insurance

SACE provides insurance cover for both suppliers and buyers credits. It also issues export authorization for medium-term (up to seven years) suppliers and buyers credits.

A). Objectives

Credit insurance gives the exporter the double advantage of protecting him against defaults in payments and facilitating the mobilization of credits with financial institutions. In principle, exports of goods and services produced in Italy are insured; this includes medium- and long-term buyers credits, direct bank guarantees and trilateral deals.

B). Cover

1. Commercial Risks: insolvency, protracted default
2. Political and Catastrophic Risks: war, revolution, cancellation, moratoria, unfair calling of bonds, non-payment by a government agency

C). Percentage of Cover

1. Up to 80 percent medium-term contract value for goods and services
2. Up to 95 percent for direct bank guarantees

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D). Credit Terms Insured or Guaranteed

1. Maximum credit length of five years
2. Minimum down payment - 15 percent
3. Repayments - six month equal installments

E). Cost of Cover

Premium rates vary by type of risk, credit period and country. An average annual premium for three years could be .76 percent; for eight years .60 percent.

ADDITIONAL PROGRAMS/PRACTICESLocal Cost Support

Reduced rail rates for internal transport of products to be exported, either to a land frontier post or seaport. This measure should be notified as an export subsidy according to our Commerce Department.

Refinancing of Export Sales to EC Members

Official discount rate to EC countries as much as three percent higher than rate for non-EC sales, fixed at 3.5 percent. According to the terms of an intra-EC accord, the official discount must be maintained in sales between EC countries, but this should be notified as discrimination against non-EC countries.

Performance and Bid Bonds

SACE will guarantee Italian banks and exporters against the "unfair calling" of bid and performance bonds that they provide. The guarantee covers only the calling of bonds for political reasons. To date, most of these bonds have been issued for projects in the Middle East.

Exchange Risk Insurance

Exchange risk insurance can be obtained for supplier and buyer credits denominated in U.S. dollars, provided that the payment schedule exceeds 18 months from the signing of the supply contract or loan agreement.

Research and Development Committee

Except for R&D centers and projects in the Mezzogiorno (Southern Italy) area, reliable information is difficult/impossible to obtain on availability of tax credits for R&D.

Tax Depreciation Formula for Textile Machinery

Five percent over 20 years.

Interest Rate

The current interest rates vary from region to region. At present (1981), the rates are between 23 and 25 percent. The official discount rate is 16.5 percent.

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JAPAN

Following World War II, the Japanese Government recognized that foreign exchange earnings would be required to rebuild Japan's war-torn economy. The economy was thus developed by emphasizing export promotion and cooperation between the government and business and financial institutions. Today, the lack of material resources and raw materials needed to supply Japanese industry forces Japan to continue to emphasize exports.

Government involvement in the exporting sectors is far-reaching and diverse. In the area of export credits and guarantees, the Eximbank of Japan, the Japan Development Bank, and the Bank of Japan have been active in providing financing assistance for long- and medium-term export transactions and major projects. The Japanese government has been one of the most aggressive of all industrialized country governments providing export financing. This close cooperation between government officials and the business community is a major factor that helps to explain Japan's successful export performance. Japan is justifiably regarded as the model of successful government-business cooperation in international commerce.

The Japanese Government has also devised a rather extensive aid program. Major projects in developing countries are often financed through a mixture of aid funds and official export credit support. Use of this form of mixed credit support appears to be increasing as Japan's export promotion policy puts more and more emphasis on sales to developing countries. While much of Japan's aid is untied, it is believed that a substantial percentage of untied aid results in Japanese procurement.

Other forms of official support for exports include tax incentives, coverage of R&D expenditures and guaranteed loans for working capital. This assistance is directed toward the development of new industries and sectors that will eventually play a significant role in the Japanese economy.

Finally, small- and medium-sized Japanese firms receive assistance from the large trading companies in marketing their products abroad. The trading companies benefit from economies of scale and operate on relatively low profit margins. In addition, their close relationships with the banking community often guarantee a ready source of financing.

OFFICIAL EXPORT CREDIT INSTITUTIONS

Primary responsibility for Japanese export credit and insurance support is vested in the Ministry for International Trade and Industry (MITI), Export Insurance Division (EID). MITI provides export credit insurance and guarantees covering commercial and political risks to exporters, commercial banks, and the Export-Import Bank of Japan.

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The main funding institution in the Japanese official export credit system is the Export-Import Bank of Japan. The Bank provides a wide range of financial facilities aimed at supplementing and encouraging financing by commercial banks. Its activities include both supplier and buyer credits and guarantees for various financial obligations. In addition, Eximbank Japan provides overseas investment credits to Japanese investors for their enterprises abroad and for their participation in joint ventures.

Eximbank usually coordinates a financing package with commercial banks, with Eximbank providing anywhere from 60 to 70 percent of the financed portion of the contract. As interest rates moved upward, however, Eximbank began to finance a large share of export credits in order to support more competitive rates in line with minimum OECD rates.

Aid to developing countries is provided by the Japanese Overseas Economic Cooperation Fund (JOECF) and the Export-Import Bank. The JOECF provides soft loans to the governments of developing nations carrying interest rates as low as 1.75 percent per annum and maturities of up to 30 years. Hard loans extended by JOECF typically have an interest rate of 5 percent and a maturity of 20 years with a five-year grace period. JOECF also extends commercial loans to Japanese corporations with interest rates ranging from 3.5 to 7.25 percent per annum with ten-year repayment terms.

The programs of the export financing agencies include:

- *preferential fixed-rate financing for credits over two years;
- *credit insurance for commercial and political risks;
- *local cost financing;
- *aid financing in particular situations;
- *exchange risk insurance; and
- *performance bond guarantees

MEDIUM-TERM PROGRAM*

*(Long- and Short-term Program data is omitted as being not pertinent to textile machinery transactions.)

Financing

Almost all Japanese medium-term export credits benefit from preferential fixed-rate financing by Eximbank. Most of Eximbank's activity has been on a supplier credit basis, but the amount of buyer credit activity is increasing. Supplier credits are used exclusively to support medium-term export transactions.

Typically, 85 percent of a transaction's contract value is financed with Eximbank providing 70 percent of the financed portion and a commercial bank providing the balance. The resulting blended interest rate is at or near the OECD rates. Insurance protection from MITI is required for all supplier credits. The insurance premium adds approximately 0.1 to 0.3 percent annually to the cost of a credit.

Note: OECD = Organization for Economic Cooperation and Development

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All Eximbank loans are denominated and disbursed in yen. It is common practice, however, for the supplier to offer the credit in U.S. dollars, again at the minimum interest rates specified in the OECD "Arrangement."

Insurance and Guarantee

MITI provides insurance for medium-term transactions under an Export Bill Insurance Policy. This policy is extended to commercial banks for protection against loss due to non-payment. Both political and commercial defaults are covered. Export bill insurance is available to cover capital goods and technical service.

Insurance is written on the basis of a buyer-country risk classification. For countries classified as "stable," no prior approval is necessary from MITI once a general policy has been issued if the maximum liability does not exceed 100 million yen and the liability amount is less than seven times the buyer's net worth. Specific approval is required on a case-by-case basis for all other transactions. No insurance can be extended for countries where the risk of non-payment is considerable or where a default has already occurred.

Premiums charged for this policy vary according to buyer country and range from 0.6 percent to 3.0 percent per annum. During 1979, the total value of coverage provided was the equivalent of \$4.95 billion, virtually doubling the coverage written during 1978.

ADDITIONAL PROGRAMS/PRACTICES

Performance Bond Guarantees

In 1977, the Japanese Government introduced a performance bond guarantee scheme, responding to the perceived need for such protection for large projects, especially in the Middle East, Latin America, and Southeast Asia.

Refund Bond Guarantee

This policy is designed to cover a situation where the buyer makes a down payment and, because the contract is completed unsatisfactorily or not completed at all, the insured is asked to refund the cash payment.

Construction Works Guarantees

Under this program, MITI will cover both pre- and post-completion risks to protect exporters against losses due to the expropriation or confiscation of equipment.

Local Cost Support

Japan is among the most liberal of the major trading nations with respect to providing local cost support to purchasers of Japanese exports. The Japanese believe that local cost financing is an integral component of providing financial assistance, especially to a developing country. Local cost loans are generally authorized in support of turnkey projects where timely completion of the project is a high priority.

Exchange Risk Insurance

In 1974, MITI inaugurated a limited exchange risk insurance program covering loans denominated in U.S. dollars, British pounds, French francs, German marks and Swiss francs.

During the first two years of a maximum 15-year repayment period, a supplier bears all the exchange risk and may cover this portion of the transaction in the forward market. In the event of depreciation of the currency of repayment against the yen, the supplier must bear the first 3 percent of exchange rate loss; MITI's maximum liability is 20 percent, or 17 percent above the supplier's deductible. In cases where the yen appreciates against the eligible foreign currency, exchange gains are shared according to the formula described above. Coverage is limited to certain eligible product groups, including plants and equipment, and engineering services.

Premiums charged are 0.8 percent per annum for comprehensive policy holders and 1.5 percent per annum for specific policies. During 1979, seven exchange risk policies were issued, covering a total value of 13,840 million yen (\$63 million). MITI indicates that it does not adjust premium rates to meet competitive situations.

Mixed Credits

The Japanese Overseas Economic Fund is the government's aid agency. To the extent its funds are used to finance exports, terms have consistently been well above the OECD arrangement minimum of 25 percent grant element that separates commercial credit from development aid.

The JOECF and Eximbank of Japan funds are never formally combined to yield the longer repayment terms and lower interest rates that characterize mixed credits. However, some projects do end up being supported with both OECF and Eximbank funds; these are usually natural resource development projects.

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SWITZERLANDGENERAL DEVELOPMENTS IN OFFICIAL SUPPORT OF, AND INTERVENTION IN, THE FINANCING OF EXPORT CREDITS

Generally speaking, the Swiss authorities do not intervene in the financing of export credits. Financing is provided by the Swiss capital market which has always satisfactorily fulfilled its role as supplier of funds to Swiss exporters. Official support has been confined to a governmental credit insurance scheme against non-commercial risks (two private companies insure commercial risks). This credit insurance, introduced in 1934 to promote exports and insure a higher level of activity in the Swiss economy, now serves to facilitate the financing of medium- and long-term export business, mainly to the developing countries.

OFFICIALLY SUPPORTED EXPORT CREDIT INSURANCE AND BANK GUARANTEESExport Risk Guarantee Program

Office for guaranteeing export risks (GERG), introduced in 1934 as a system of insurance of non-commercial risks involving non-payment for exports.

A). Resources

GERG, no longer part of Federal budget, but a special fund into which all premiums and repayments are paid. Should the assets of fund be depleted by future claims for losses, the Federal Government will contribute funds eventually repayable with interest.

B). Objectives

GERG serves to promote exports and thus maintain a high-level of employment. It covers credits extended by Swiss exporters to foreign customers, or by commercial banks to exporters. It provides guarantees against commercial risks and political risks of non-payment of credits arising out of Swiss exports.

C). Cover

The coverage of Swiss goods and certain services abroad extends to political and commercial risks, now up to 95 percent of the income value, and since 1973 to risks resulting from appreciation of the Swiss franc.

In 1976, 18 percent of Swiss exports were covered by the GERG program. Earlier this figure was 9-10 percent, mainly to the developing countries.

D). Credit Terms Insured or Guaranteed

Capital goods: 5 years

Cash payment: 10-20 percent or more

Repayment: in equal half-yearly installments

E). Criteria for Accepting Cover

Cover is given only on normal market terms. In principle, the only guarantees required are those of the State, or public body.

F). Cost of Cover

Premiums are based solely on the amount of the invoice in proportion to the amount guaranteed and the duration. For example, the premium for a 95 percent share of a GERG guarantee is 1.21 percent for a three year credit, and 2.10 percent for an eight year credit.

G). GERG Guarantees for the Mobilization of FinancingSupplier Credits

Commercial banks refinance exporters up to their share of the GERG policy with a maximum of 95 percent; the amount of refinancing may be lower in the case of large risks, or in accordance with government economic policy.

Buyer Credits

The banks finance the entire credit, less advances.

OFFICIAL EXPORT CREDIT FINANCING

There is no official financing organization. The financing of export credits is the sole responsibility of the private sector through exporters, or the commercial banks.

EFFECTIVE FINANCING COSTS OF EXPORT CREDITS IN SWITZERLAND

Swiss exporters enjoy a highly developed capital market available on comparatively favorable terms. The financing rates of medium-term credits are:

Duration of credit	3 years	8 years
Interest rate average	7.5-8 percent	8.5-9 percent
Premium for GERG guarantee	1.21	2.10
Effective average annual cost	8.15	9.0

OTHER PROGRAMS/PRACTICESResearch and Development Assistance

Very limited subsidies for R&D, and probably not applicable to textile machinery. The Swiss Science Council is entrusted with the preparation and execution of government policy on R&D. Most subsidies on R&D are assigned to the Federal Technical Institute in Zurich and Lausanne. Swiss R&D expenditures, 3.2 percent of the gross domestic product, are the highest in the world.

Recent Codes to Assist Foreign Suppliers

One of these codes provides recourse to a foreign exporter to Switzerland when facing subsidized competition from another foreign supplier.

Protection of Foreign Investments

Investment guarantees are granted against political risks up to 70 percent of the amount invested in developing countries.

Special Investment Fund to Support Industry during Business Recessions

The Economic Section of the Swiss Embassy in D.C. claimed to know nothing of such a fund.

Miscellaneous Data

Swiss textile mills can depreciate 40 percent in first two years, and 20 percent in third year. However, profit situation does not allow this in most cases and mills usually depreciate over six to 12 years.

Current (1981) interest rate on bank loans: 5 to 6.5 percent.

UNITED KINGDOM

The United Kingdom offers one of the most comprehensive official export credit and insurance systems of all the major competitors. This reflects the U.K.'s reliance on exports for domestic growth and the government's extensive post-World War II involvement in all facets of the economy. Although such involvement is not in keeping with the present conservative government's point-of-view, no major changes are anticipated in the near future. Export promotion continues to be considered of paramount importance in promoting jobs, income, and balance of payments stability.

The Export Credits Guarantee Department (ECGD) is recognized as the principal contributor to British export success. ECGD offers extensive insurance, guarantees, and financing facilities at rates designed to be competitive in the world marketplace. Financing for medium- and long-term credits is offered in accordance with the minimum interest rates set by the International Arrangement for Export Credits. Although the British Treasury would undoubtedly favor an across-the-board increase in Arrangement rates to reduce the budgetary costs associated with the present system, it would not consider such a move if it would hamper British export performance.

OFFICIAL EXPORT CREDIT INSTITUTION

Export finance and credit insurance is provided by the Export Credits Guarantee Department (ECGD), an executive agency of the British Government established in 1919. ECGD provides a vast array of services to exporters, commercial banks and foreign buyers. ECGD's comprehensive insurance policies enable exporters to aggressively pursue sales by providing them cover against the risk of non-payment. Its unconditional guarantees of 100 percent repayment and interest rate subsidies for commercial banks enable them to finance exports at competitive interest rates.

In theory, all transactions covered by ECGD require the consent of the Treasury. Most of the Treasury's authority, however, has been delegated to ECGD. Only transactions involving large sums of money, requiring long terms in high-risk markets, or involving new principles are referred to the Treasury for approval.

The operations of ECGD are divided into trading and non-trading operations. The trading operation covers all insurance programs except the inflation risk scheme and all bank guarantee programs. Programs under the trading operation are designed to operate without using public funds. Non-trading operations include the fixed-rate export finance scheme, inflation risk insurance, and an economic assistance program. These programs are financed with public funds. ECGD's budget is voted annually by Parliament; any surplus or loss from operations becomes a part of the national budget.

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ECGD offers:

- *insurance -- comprehensive and specific policies for both exports and overseas investment risks for short-, medium-, and long-term transactions;
- *bank guarantees for short-, medium-, and long-term transactions;
- *cost escalation insurance;
- *performance and tender bond insurance;
- *inflation risk insurance; and
- *interest rate subsidies for medium- and long-term transactions.

MEDIUM-TERM PROGRAMS*

*(Long- and Short-Term Program data is omitted as being not pertinent to textile machinery transactions.)

Financing

Essentially all medium-term (two to five-year) export transactions with contract values exceeding one million pounds are supported by ECGD's financing facilities. ECGD will issue a guarantee for the full amount of credit. It also provides the participating bank with an interest rate subsidy, thereby supporting a fixed interest rate set in accordance with International Arrangement guidelines. Financing banks are entitled to a commercial rate of return under the scheme which is calculated with reference to the three-month LIBAR plus a margin of 1.25 percent for sterling credits. For dollar credits, the rate varies with the repayment term.

Eligibility for participating in the ECGD-supported export finance program was expanded as of April 1, 1980 to include all banks and licensed deposit-taking institutions recognized under the 1979 Banking Act. This includes insurance companies and pension funds, as well as foreign banks with offices in London.

ECGD extends its interest rate subsidy and guarantee support to banks offering foreign currency export credits in amounts over two million pounds with repayment terms over two years. As with sterling credits, ECGD provides both 100 percent repayment guarantees and interest rate subsidies. The preferential interest rate set by ECGD and charged by U.K. banks for foreign currency credits is the appropriate minimum rate specified in the Arrangement. U.K. suppliers are presently receiving an interest subsidy of around 11.5 percent per year, assuming a fixed rate target of 7.5 percent. It is estimated that, for each one percent rise in interest rates, the public expenditure on subsidies increases by about 50 million pounds (\$92 million).

In addition to the interest rate charged, participating banks impose various fees, as detailed below:

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- *commitment fee, typically 0.5 percent of the loan's undisbursed balance;
- *a negotiation fee which ranges from 0.25 to 0.75 percent flat; and
- *an administration fee for large loans requiring syndication, usually 0.05 percent per annum.

These fees add roughly 0.4 percent annually to the cost of a credit with a repayment term of five years or less.

Insurance and Guarantees

ECGD guarantees medium-term supplier and buyer transactions under the program discussed below:

- *A supplemental extended-terms guarantee is made available to exporters holding a comprehensive short-term guarantee (which provides 90 percent commercial risk coverage and 95 percent political risk coverage for revolving sales to public and private buyers on credit terms of up to six months). This guarantee provides comprehensive insurance for sales of light capital equipment with credit terms exceeding six months, but less than five years. Coverage is either for the exporter's entire extended-term business or for selected markets. Premiums vary according to credit term and assessed market risk. The typical premium for a five-year credit ranges from 1.2 to 1.9 percent and is paid as a flat fee.
- *Specific guarantees facilitate the financing of capital goods and project-related exports. Coverage is available from either date of contract or date of shipment. Risks covered are similar to those covered under comprehensive short-term guarantee policies, but coverage is limited to 90 percent. Premiums are payable on acceptance of ECGD's offer and are somewhat higher than those charged for comprehensive short-term policies. For transactions with five-year repayment, premiums range from 1.25 percent to 3.4 percent depending on the assessed market risk. Contracts may be denominated in sterling, U.S. dollars, or Deutsche marks. ECGD provides specific guarantees to both financing banks and exporters.

ADDITIONAL PROGRAMS/PRACTICES

Local Cost Support

This facility is not an important feature of the official export credit system. The U.K. position on local costs is similar to that of the United States --- i.e., local cost support is an extraordinary form of government-sponsored financing that intensifies international competition in the provision of official export credits.

Mixed Costs

In May 1978, the British Government announced that it would earmark five percent of its annual foreign aid budget to be used in connection with traditional ECGD-supported financing. The Department of Trade and Industry selects the projects to be considered for such mixed credit financing and gives special attention to commercial and employment impact. In addition to commercial development and employment considerations, the government authorizes mixed credit financing when necessary to match foreign competition. During 1979, ECGD provided mixed credit financing for only one project, a Philippine project with a contract value of \$30 million.

Exchange Risk Insurance

ECGD actively promotes the use of foreign currency financing for most of the transactions it supports. It does not offer a comprehensive scheme of exchange risk insurance, but instead encourages exporters to arrange forward cover in the London foreign exchange market. ECGD makes available "tender-to-contract" cover to protect exporters during the interval between bid submission and contract signing. The maximum "tender-to-contract" interval covered is nine months.

There is a 5,000 pound (\$9,200) non-refundable standard charge for this cover, plus a variable premium based on the following schedule:

Up to 3 months cover:	0.3 percent of contract value
4-10 months cover:	0.1 percent for each month covered
11-18 months cover:	0.15 percent for each month covered

Inflation Insurance

ECGD introduced this cover in 1975 when U.K. manufacturers were extremely concerned that domestic inflation would hinder their ability to compete for international business. To mitigate this concern, ECGD provides inflation risk cover for major capital goods contracts, or complete projects, worth at least two million pounds (\$3.6 million), and which require a fabrication period of two years or more. For credit contracts, ECGD will compensate U.K. exporters 70 percent of their cost increases over a seven percent "deductible" and up to a maximum amount of annual increases equaling the ceiling on ECGD's liability. (The comparable proportion for cash contracts is 75 percent.) An exporter may select a higher deductible, in which case the liability ceiling is also raised.

The premium for inflation risk cover is payable annually on the amount of costs covered at the rate of one percent. In computing the premium, the deductible, and the amount of reimbursement, ECGD does not base its calculation on the entire contract amount. Foreign components, fixed overhead costs, inputs obtained from fixed price contracts, and profits are all deducted from the contract value. As a result, an inflation policy will cover, on average, about 55 percent of the contract amount.

Foreign Content

ECGD guidelines regarding foreign content, under the buyer credit program, are relatively liberal and reflect standard EC practices in this area. If the foreign components originate in another EC country, ECGD will cover a maximum of 40 percent of contract value. Components from Austria, Norway, Sweden, and Switzerland are covered for up to 30 percent, while all other foreign components receive 15 percent support.

Intra-EC Trade

In accordance with the Treaty of Rome, all intra-EC trade is to be financed at market rates of interest, although the rate can be a fixed one (e.g., the standard Central Bank discount rate which was 16 percent at the end of June 1980).

Letter of Interest

A new system of "letters of interest" was introduced in 1980 to provide exporters with greater assurance that cover will be available if the contract is considered within the given validity period.

WEST GERMANY

Germany's successful export performance is not directly attributable to government subsidies in the financing of exports; government assistance in this area has been minimal. To a large extent it can be attributed to national government guidance and planned cooperation between the government, commercial banks, and the business sector. The government, through various grants and tax-relief programs, also assures that an adequate amount of capital will be allocated for research and development purposes. This is part of a broader government policy aimed at developing competitiveness in the capital-intensive, and more technologically sophisticated sectors of the economy. German firms, as a result, are able to market a high-quality, price-competitive product for which financing terms become a relatively minor issue.

It can be argued that, given the special role commercial banks play in the German economy, direct official support is not necessary. The banks provide short-, medium-, and long-term credits at floating rates of interest. Long-term, fixed-rate financing for exports is made available through the AKA, a syndicate of 58 commercial banks. Market interest rates have until recently been competitive, on a nominal basis, with more foreign officially-supported rates. As a result, AKA's "B" fund, the only one of its three funds that is governmentally supported, was seldom used during 1978 and 1979.

It can be further argued that Germany's healthy domestic economy with low inflation rates, low interest rates, and high productivity levels pay a significant role in German export performance. The German economy is by necessity export-oriented; it has been estimated that 20 percent of the labor force is dependent on exports for jobs.

OFFICIAL EXPORT CREDIT INSTITUTIONS

Financing support for German exports is provided by two institutions: AKA and KFW. AKA provides, as one of its services, a limited quantity of preferential-rate financing for medium-term supplier credits. KFW is a government development bank that provides, among other services, financial and technical assistance to developing countries and extends preferential, fixed-rate export loans for projects with long repayment terms.

Export credit insurance is provided by Treuarbeit, a public agency and Hermes, a private agency. In almost every case, Hermes insurance is a precondition to obtaining medium- and long-term export financing.

Note: AKA = Ausfuhrkredit Gesellschaft
KFW = Kreditanstalt Fuer Wiederaufbau

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The programs offered by the official German export credit system include:

- *direct credit support for medium- and long-term transactions
- *commercial and political risk guarantees for short-, medium-, and long-term financing
- *local cost insurance
- *exchange risk insurance, and
- *performance and bid bond insurance

MEDIUM-TERM PROGRAMS*

*(Long- and Short-Term Program data is omitted as being not pertinent to textile machinery transactions.)

Financing

A German exporter has several alternatives in arranging financing for exports requiring medium-term repayment (one to five years). A substantial share of such financing goes forward without government funding support. Government-supported medium-term financing is available through a special AKA facility called the "B" fund and through the KfW. Private sector sources that provide medium-term financing include banks established by the Land Government, mortgage banks, and private commercial banks. Hermes credit insurance is almost always a pre-condition for obtaining medium-term export financing.

AKA "B" Fund: Supplier credits to developing countries with repayment between one and four years are eligible for financing under AKA's "B" fund. Funds available total DM 3,000 million (\$1,637 million) with a limit of DM 60 million (\$33 million) for any one contract. Credits funded can be rediscounted by the Bundesbank at a preferential rate of 1.5 percent above its discount rate (which ranged from 4.5 to 6.0 percent during 1979). Both fixed and floating rates are available; the floating rate is always 1.50 percent over the prevailing discount rate. A 0.6 percent per annum bill of exchange tax and a 0.1 percent per annum commitment fee are charged. The premium for mandatory Hermes insurance must also be included. A maximum of 70 percent of the contract value can be financed through the "B" fund. (1979 average financing costs, including insurance - 8.30 percent per annum).

Because the "B" fund is government-supported, interest rate provisions of the OECD Arrangement must be adhered to. During 1979, the fixed interest rate charged for "B" fund loans was 6.75 percent. Floating interest rates ranged from 5.5 percent to 7.5 percent.

Total AKA "B" fund authorizations during 1979 amounted to DM 406 million (\$221 million). Eximbank discount loan authorizations amounted to \$635 million in the same period.

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KFW: Although the majority of KFW financing is for transactions with repayment terms exceeding seven years, medium-term transactions also qualify for support if the exporter's total annual sales are less than DM 200 million. This facility is available only for exports to centrally-planned economies and developing countries.

Insurance and Guarantees

Insurance policies offered by Hermes for coverage of medium-term export transactions are comparable to those offered for short-term transactions. The premium has two components: a flat fee payable upon issuance of the policy, and an annual charge payable on the outstanding balance. Fees vary according to whether the buyer is public or private, the length of the contract and the amount covered, but do not ordinarily vary by country.

Hermes also offers two basic credit guarantees for medium-term transactions:

Garantie - for private sector buyers. It covers the commercial risk of insolvency and political risks. Coverage is given for up to 90 percent of political risks and 85% of commercial risks. The premium charged consists of a one-time-only 1.5 percent fee, plus a monthly fee of 0.1 percent. At annual rates, the premium for insuring a credit for from 3-10 years is from 1.3 to 1.4 percent per annum.

Burgshaft - for public sector buyers. It covers the same political risks as a garantie and also covers the risk that amounts due will not be paid within six months of the agreed date of maturity. Coverage is the same as for a garantie. The premium charged consists of a flat fee of 1.0 percent for a covered amount of up to DM 3 million. A fee of 0.75 percent is charged on the amount exceeding DM 3 million. In addition, a premium of 0.4 percent is assessed on the outstanding balance. At annual rates, the premium for insuring a ten-year credit is 0.6-7 percent per annum.

Hermes cover for medium-term exports declined during 1979 to DM 1.711 million (\$933 million) from DM 4.224 million (\$2.305 million) in 1978.

ADDITIONAL PROGRAMS/PRACTICES

Mixed Credits

Mixed credit financing has been provided in some cases, but it is considered a means of financial assistance to developing countries and not an instrument of official export support. Only DM 250 million of export credit funds were used in the mixed credit scheme in 1979.

Local Cost Support

Compared to other major exporting nations, Germany is one of the most liberal providers of local cost support. Local cost support is almost always extended if requested by the German exporter, and responsible officials are particularly willing to support local costs when the exporter has "turnkey responsibility." For policy reasons, Eastern Europe and industrialized countries are not eligible to receive such support. Official support for local costs cannot exceed the amount of the cash payment.

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Local cost loans are available from private banks, AKA and KFW. A Hermes guarantee, which facilitates acquisition of the necessary financing at a favorable rate, is readily extended for this purpose.

This approach to official support for local costs is viewed as a counterbalance to the conservative government program for facilitating exports and as a means of reducing the continual balance-of-payments surpluses.

Performance and Bid Bond Insurance

German exporters can obtain Hermes' coverage against the "unfair calling" of performance and bid bond. "Unfair calling" means that the bond's calling is due to a political factor, rather than a dispute over performance. Most of these policies have been issued for projects in the Middle East.

Exchange Risk Insurance

Hermes provides insurance against adverse exchange rate fluctuations for supplier credit contracts denominated in U.S. dollars, sterling, yen, Swedish krona and Swiss francs. The cover becomes effective two years after contract signing. Losses of less than three percent must be borne by the exporter. If the loss exceeds three percent, Hermes will reimburse the entire loss. Any gains over three percent must be surrendered to Hermes. The premium for this coverage, paid on the outstanding balance of the financed amount, is 0.7 percent per annum.

Research and Development Assistance

This important factor in the government's export policy was mentioned briefly above. Attempts are being made to obtain more data relating to the pertinent grants.

From the tax standpoint, R&D investments on movable assets can be written off at 50 percent in the first year and the balance over the following four years. R&D investments on fixed assets can be depreciated at 30 percent in the first year and the balance over the following four years.

Also regarding industry income taxes, German textile mills can, and do, depreciate modern high technology machinery at 14 percent over seven years. Older machinery is depreciated at 10 percent over ten years.

Interest Rate

The current interest rate (1981) is running between 14.5 and 16.5 percent.

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April 19, 1983

Senator John Heinz
Chairman, Subcommittee on
International Finance
and Monetary Policy
Senate Banking Committee
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On behalf of Security Pacific National Bank, I would like to provide comments for your consideration in your deliberations regarding renewal of the Charter for the Export Import Bank of the United States. As a financial institution intimately involved in international trade financing, I feel it appropriate to discuss with you the direction of the Bank.

First, Security Pacific firmly believes in the mission of the EXIM Bank. In order to produce a more competitive environment for United States business and for our workers, the EXIM Bank has taken an important lead in meeting foreign government subsidies provided overseas which place our exporters at a serious disadvantage. The continuation and enhancement of that effort must be established by legislation and thus, at the outset, Security Pacific endorses the extension of the Bank Charter.

Second, I would note that the major components of S. 869, introduced by you, Senator Heinz, go far to improve the role of the Bank. Setting forth the priority of competitiveness over self-sufficiency will provide a strong warning to foreign competitors. Increasing the budget for the Bank, increasing the loan limit requiring congressional oversight, and reinstating the Advisory Committee are all worthwhile. Although the mixed credit program contemplated by S. 869 may raise some initial concerns, I believe that it can be managed in a useful fashion to meet foreign mixed credits as the Administration continues to work for elimination of such financing arrangements through negotiations.

Regarding Section 1912, I would express concern with the intent of S. 869 to enhance this part of the EXIM Bank Amendments of 1978 to provide for matching financing for US importers in instances of foreign government "predatory" financing arrangements. While I applaud the goal of this section, I do not feel that this is a proper role for the EXIM Bank. Indeed, a special fund could be created to achieve the goals of Section 105 of S. 869 within Treasury or Commerce; indeed, more expertise may exist at Commerce to administer such a fund. In brief, the thrust of Section 105 may be correct, but I believe that EXIM Bank should continue to have as its focus export trade.

During the March 22nd hearings on S. 869, testimony was taken from Senator James Exon regarding agricultural trade. While not endorsing the legislative proposal he has set forth per se, I would urge consideration of language to note continued EXIM Bank support for agricultural trade. A short term agriculture program existed at EXIM Bank, which included FCIA insurance and Bank underwriting of remaining risks; it received only lukewarm support by the staff, but was seen as beneficial to many in the agriculture community. Some expression of Committee support for this program would be most important.

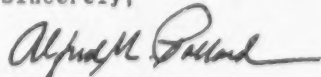
In another area, the Committee could be of great assistance to EXIM Bank customers by directing the Bank to review and simplify its medium term guarantee programs. Although regulation is required, a legislative directive to simplify some programs would be useful and would encourage greater utilization by the business community.

A related area-- medium term lending contemplated under the revived Discount Loan Program, should receive clear legislative direction from the Congress to insure its full implementation. I might suggest that a set aside of some figure, a percentage of the new \$7 billion authorization, might be in order to keep this program operational and demonstrate an ongoing commitment to this type of lending.

I appreciate your willingness to consider views on this most important subject. Your efforts and those of the entire Senate Banking Committee to address in an expeditious fashion the Bank Charter will be beneficial to the institution and exporters. Again, I would applaud the thrust of S. 869 and would urge review of the concerns expressed here.

If Security Pacific can be of further assistance, do not hesitate to call me, here in Washington at 659-4550, or, in Los Angeles, Mr. Robert Westfall, 213/613-5481.

Sincerely,



Alfred M. Pollard
Vice President

cc: Senator Jake Garn

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